Company Name: Green Plains Inc
Company Ticker: GPRE US
Date: 2016-05-03
Event Description: Q1 2016 Earnings Call

Market Cap: 649.03
Current PX: 16.87
YTD Change($): -6.03
YTD Change(%): -26.332

Bloomberg Estimates - EPS
Current Quarter: -0.019
Current Year: 0.054
Bloomberg Estimates - Sales
Current Quarter: 795.143
Current Year: 3110.875

Q1 2016 Earnings Call

Company Participants

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

Other Participants

- Selman Akyol
- Farha Aslam
- Heather Lynn Jones
- Laurence Alexander
- Edward George Westlake
- Sandy H. Klugman
- Craig Edward Irwin
- John Edwards
- Ethan H. Bellamy
- Pavel S. Molchanov
- Brett W. S. Wong

MANAGEMENT DISCUSSION SECTION

Operator

Please stand by, we are about to begin. Good day everyone, and welcome to the Green Plains Inc. and Green Plains Partners LP First Quarter 2016 Results Conference Call. Today's call is being recorded, and at this time, I would like to turn the conference over to Jim Stark. Please go ahead, sir.

Jim Stark

Thanks, Cathy. Welcome to the Green Plains Inc. and Green Plains Partners' first 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; and Steve Bleyl, our 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 or 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 – oops, sorry. 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 call today. We reported a net loss of $24.1 million or $0.63 a share. We also reported a negative EBITDA of $5.8 million for the first quarter across all segments.

As we indicated in yesterday's release, the loss in our marketing and distribution segment was driven mainly by valuation of inventories held for forward business that is fully hedged. This was a result of certain accounting conventions that were applied to both inventory positions for export that will be executed in the next couple of quarters, as well as inventories that have been hedged but cannot be realized until execution. We anticipate the profits on these sales will be realized over the rest of the year, and we expect that the operating income for the marketing and distribution segment will be in the range of $25 million to $30 million for fiscal 2016. So as you can see, there should be minimal impact to the segment for the overall results of 2016.

Our agribusiness and partnership segments both had a solid quarter, which I will speak to a little later on the call. The consolidated ethanol crush margin, which is again operating income before depreciation and amortization from the ethanol production segment, including corn oil, plus intercompany fees such as the Green Plains Partner storage and transportation fees, was a break-even for the quarter. This was the first overall negative EBITDA quarter for the company in the last seven years of reporting, and we are not expecting Q2 to have the same result as margins have improved, which I will give you some color on later as well.

For Green Plains Partners, we generated $13.9 million of adjusted EBITDA, with distributable cash flows of $13.5 million driven by approximately 247 million gallons of ethanol storage and throughput volume during the first quarter. For the second consecutive quarter, we increased the quarterly cash distribution by $0.0025 to $0.405 per share, and our coverage ratio was solid 1.02. Volumes will improve during the second quarter and we expect results to improve as well.

During the quarter we produced 247 million gallons of ethanol. We reported a yield of 2.85 gallons of ethanol per bushel of corn, which was down a bit because of the startup of the Hopewell facility during the quarter. If you take Hopewell out of the yield calculation, we achieved a 2.87 yield. Because of many of the yield improvement initiatives over the last several years – to give you an example we have plants like Bluffton, Indiana achieving a 2.90 yield and even Superior Iowa achieving 2.92 – we produced 59.8 million pounds of corn oil, processed 86.5 million bushels of corn, and produced 646,000 tons of distillers grains for the quarter, and obviously all these production metrics will improve next quarter as we have ramped production back up.

Export sales accounted for nearly 26% of the company's ethanol production for the first quarter. This was the highest mark we've experienced since we began exporting ethanol as a company. We also exported 14.5% of our distillers grains and 62% of our corn oil that we produced. All of these are new records. As I mentioned in our last call, we continue to focus our efforts on exporting all products that we sell that make economic sense. We especially focused on non-ethanol products as we've continued to try and disintermediate third parties from our supply chain. From a standing start, we became the number one exporter of containers of distillers grain into several of the top 5 international markets. In addition, our export program of corn oil has also been very successful.

We experienced a sluggish first quarter for ethanol. Even though the ethanol demand side of the equation was solid and gasoline demand was 4% higher year-over-year, the ethanol exports in line with our expectations, the culprit remains that as an industry we produce too much ethanol. We estimate a mere 40,000 barrels a day of over-production had a negative impact on margins, even though it seems like a very small amount. We have seen daily production run rates for the industry decline over the last four weeks because of seasonal maintenance activities, and we anticipate gasoline demand will continue to grow into the summer driving season. With the last couple of weeks of EIA data we are starting to see ethanol stocks drop, which has led to an improving margin environment. However, this is something we are watching closely over the coming weeks.

Days of demand have continued to decline, and we illustrate that in a chart that we have given you which also gives an inclination that we should continue to see an improving ethanol margin environment. Our highest priority since the end of 2015 has been and remains managing and maintaining our liquidity. This is why we slowed down our ethanol expansion projects and why we did not repurchase shares during the first quarter.

While we're often asked what is the right amount of cash to keep in this business, the validity of our long-term liquidity strategy worked very well this quarter, and there is very little risk to our shareholders and stakeholders during one quarter of cyclical low margins. Jerry has a great illustration on the positive impact of our Term Loan B structure as well, on liquidity during the down quarter as well. 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 further discuss our strategy going forward.

Jerry L. Peters

Thanks, Todd. Good morning, everybody. For Green Plains Inc., consolidated revenues were $749 million in the first quarter, which was up $11 million or 1.5% from a year ago, driven by higher volumes of products sold. Volumes of ethanol sold for the quarter were up 18% to 326 million gallons, while the average realized price per gallon was 9.5% lower than last year's first quarter.

Our consolidated operating loss for the quarter was $24.1 million versus a $3.3 million loss a year ago, primarily as a result of the weaker ethanol margin environment and the loss related to our marketing and distribution segment that Todd spoke about earlier in the call. We incurred an income tax benefit of $14.9 million for the three months ended March 31, 2016, compared to a tax benefit of $2.4 million for the same period in 2015.

EBITDA was a negative $5.8 million for the first quarter of 2016 compared to $19.2 million positive for last year. We ended the first quarter with total cash of $401 million. Total capital expenditures in the first quarter were $16.5 million. Our estimated full-year growth capital expenditure currently stands at about $35 million to $40 million, including the partnership. And as Todd mentioned in his opening remarks, we will start to add additional phase-one expansion gallons in June into the first quarter of 2017.

Our total debt stands at $776.6 million at the end of the first quarter. This balance includes $277 million on our commodity revolvers, which are secured by significant working capital positions, and it also includes $51 million borrowed on the revolver for Green Plains Partners to fund the drop-down of the storage and transportation assets from Green Plains Inc. at the start of January. That leaves our term debt for Green Plains Inc. at March 31 at $448 million, which includes $105 million of convertible debt.

Our ethanol debt service remains low at about $0.02 per gallon. I've mentioned this before, but in a quarter like this it bears repeating. Our Term Loan B, which was structured to address the variability of ethanol margins, is a key component of our financial strength. Here's how I think about it. Our ethanol segment depreciation was just short of $16 million for the quarter, while our quarterly principal amortization in our ethanol segment is a little over $1 million. That is significant in preserving our liquidity in a weak margin environment, and also provides the financial flexibility to acquire additional assets on an opportunistic basis.

At the same time, the sweep structure of the Term Loan B allows us to utilize strong cash flows in times of good margins to pay down debt. In addition, as we have grown our production capacity we have reduced our ethanol plant debt to $0.27 per gallon versus $0.34 per gallon a year ago. Our balance sheet is well positioned to take advantage of near-term opportunities to grow.

For Green Plains Partners, we reported adjusted EBITDA of $13.9 million for the quarter. Since the first quarter of 2015 is not comparable due to our IPO that occurred on June 30 of 2015, I'll do a quick sequential run-through of Green Plains Partners' performance. Adjusted EBITDA for the first quarter of 2016 was $13.9 million, a decrease of 2.8% from the fourth quarter of 2015, which was $14.3 million, the primary difference being slightly lower throughput volumes on our ethanol storage assets. Green Plains Partners had 247 million gallons of throughput volume at our ethanol storage assets, which was approximately 2 million gallons less than the fourth quarter of 2015.

While we had a full quarter of throughput from the Hereford plant, and a small contribution from Hopewell, which started production during the first quarter, our production at other plants was slow due to the weaker margin environment. As we said in the release, we expect volumes should be up considerably in the second quarter with both plants in operation for the full quarter and increased production at our remaining plants.

Distributable cash flow was $13.3 million, or $800,000 less than the $14.1 million reported in the fourth quarter of 2015. This was caused by interest expense incurred on the funds borrowed for the drop-down of assets, along with income taxes incurred by the partnership. Maintenance CAPEX remains at about $30,000 to $40,000 per quarter.

On April 21, the partnership declared the distribution for the second quarter of $0.405 per unit. This was the second quarter-cent increase over the initial distribution announced in October of last year. The distribution coverage ratio is 1.02 for the second quarter, and 1.03 when you look at it on a combined basis for the first three quarters of our operations. For both companies the balance sheets remained strong and we continue to keep significant liquidity available and at the ready for growth opportunities.

Now I'll turn the call back over to Todd.

Todd A. Becker

Thanks Jerry. So with the ethanol margin environment that started as we moved into second quarter, and it's improved, we have locked in a little over 50% of our production gallons for the quarter. This was all done in order to reduce some of the volatility of the open position, which has worked well as we have seen a wide range of margin changes on a daily and weekly basis this quarter. We will continue to work on this, and when the opportunity presents itself we will work to lock away forward margins out on the curve.

Our consolidated cost margin is currently around high single to low double-digits range during the spot market in the second quarter. We expect our agribusiness segment to have a better second quarter then it historically does, which would also be better than the first quarter of 2016 that we just completed, which is mainly due to an improved margin environment for our cattle feeding operation.

Just want to give you a quick update on our CRM campaign. Our goal for the CRM is to disintermediate commercial grain companies from our supply chain, as we outlined to you in the past. The first step was to integrate our grain storage to be in line with our production plant. If you recall, seven years ago we had about 10 days of storage versus production needs. Today we have 47 days of grain storage in our direct supply chain. We believe we can lower our corn cost by buying direct from the farmer in the range of $0.05 to $0.10 per bushel. We will process close to 400 million bushels of corn annually, so the impact to the bottom line can be substantial in the future.

In 2013, for an history lesson, two-thirds of our corn came from commercial elevators. More recently last year 50% to 60% came from that source, but since we've launched this campaign over the last several months we have been successful in reducing our corn origination from commercial grain elevators down to about 25%. We feel like we are just getting started with this program, and the amount of information and context established is significant and the opportunity is great in the future. All of these disintermediations will pay dividends as we go after the margin others earn around our supply chain, and we have been successful on this in several areas.

Corn oil pricing continues to show improvement, where we averaged a low $0.03 of operating income per gallon of ethanol produced in Q1, and now pushing closer to $0.04 of operating income per gallon going forward. The markets moved from the low $0.20s to the low $0.30s per pound over the last several months, as the veg oil market has shown strength globally and the fats market has shown strength domestically.

The partnership turned in a good first quarter. With the increase in production gallons for Q2 and the rest of 2016, we expect adjusted EBITDA and distributable cash flow to move higher over the next three quarters with better production levels. We are reevaluating the site to build our unit train terminal in the Little Rock area for the Green Plains Partner

Platform. Another nearby location may provide us with a better opportunity to achieve the outcome we were planning from the start. The project completion date will push into the second quarter of 2017. We are also continuing our quest to find a solution to increase internal capacity for export and import of products we produce, both qualifying and non-qualifying, and we believe we are getting closer to this solution. More to come on that in the coming months.

Q1 was a slight cash burn quarter that we do not want to see repeated, and our strong belief is that growing our business will distance us from having history repeat itself. With the current ethanol margin curve, the worst looks behind us, as EBITDA is fully positive in the second quarter and holding steady even with the volatility in the corn market because of our hedges in place. We are still following the five points of capital deployment we had spoken to over the last year and half: acquisitive growth, organic growth, debt pay-down, dividend growth, and share buybacks. And we're ready to step in as the market fundamentals have improved in any and all of the amentioned points.

I want to thank everybody for joining the call today, and now I'll ask Kathy to start the question-and-answer session. [no speaker] (16:26 – 16:37) Kathy?

Jim Stark

Kathy? [no speaker] (16:40 – 16:51)

Todd A. Becker

The conference call company had a fire alarm that went off and they're unattended right now. So we're going to have to wait a few minutes 'til they hop back on the line. So if you can give us a few minutes of your patience – I hope you can hear us – we're going to have to wait for them to come back on the line. [no speaker] (17:16 – 18:09) We're calling in to the conference call company now to find out what the delay is. Give us a few more minutes, and please be patient.

Jim Stark

[no speaker] (18:17 – 19:04) They are still checking, please stand by. [no speaker] (19:07 – 20:08) Hey, bear with us, we are still trying to get some operators back into the building. Thanks. [no speaker] (20:14 – 21:17)

Q&A

<A - Jim Stark>: So, not to delay this any longer, we do have a queue that we see, and [ph] Farha (21:23), if you are listening, if you could email me your two or three questions, I'll read them off and then we'll answer them. And then next in the queue is Heather Jones at BB&T, if you will do the same, we'll bridge the gap while we are waiting for someone to return to the call center. Thanks. [no speaker] (21:42 – 22:17)

Okay, we do have a question from Selman at Stifel on Green Plains Partners.

<Q - Selman Akyol>: Is the lower G&A expense at the partnership sustainable, and any comment please on the depreciation and amortization, as it was lower than last quarter despite more assets?

<A - Todd A. Becker>: Jerry?

<A - Jerry L. Peters>: I'll take that. The G&A expense was down a bit in first quarter for Partners. If you recall, last quarter we had about $400,000 to $500,000 of transaction costs related to the drop-down that were reported in the fourth quarter. So when you take that out, our G&A expenses would actually be slightly higher for the quarter. I think first quarter 2016 run rate for G&A of about $1.2 million is a pretty good ongoing run rate.

In terms of depreciation expense, we actually had a downward adjustment on depreciation expense in the first quarter. Again, I think a more normalized level would be about $1.3 million to $1.4 million going forward from here.

<A - Jim Stark>: Okay, our next question comes from Farha Aslam at Stephens.

<Q - Farha Aslam>: Could you please provide more color on the mark-to-market?

<A - Todd A. Becker>: In our marketing distribution segment, we are not particularly happy with the results, but they are, in our view and our accountant's view, most of them are coming back for the next several quarters. So that's why we left our full-year guidance of $25 million to $30 million intact, which initially we said is a $5 million to $7 million per-quarter business. And if you kind of – if you extrapolate that over the year that will still give you $25 million to $30 million of operating income.

So in the commodities that we trade, several of them all came at once where there were certain accounting treatments that we had to take. So when we hold inventories for sale, so for example corn oil for offshore, those sales have been made and as the inventories build and as the market was rising, we had inventories that were building at the end of the quarter and boats that weren't there yet. The sale gets marked to market, the inventory doesn't.

So as we market our corn oil offshore through our marketing and distribution segment, the company-owned inventories and other inventories sometimes don't get marked as – but the sales do. So that will be recovered in Q2 and Q3 as we execute those. In addition to other things like our natural gas and energy trade as we lock margins away, the mark-to-market oftentimes gets the treatment while we certainly have the margin locked away, and those are coming back over the next several years as well.

So, it all basically hit at once. We had some strong results in some of our other segments, which is why we feel very confident and comfortable in guiding you that the full year will still be between $25 million and $30 million, and that is not a loss that is permanently in place, and you will see those recover, Q2, Q3 and Q4.

<A - Jim Stark>: Okay, next question comes from John Segrich at...

<A - Todd A. Becker>: I think they are back. Catherine, are you back?

Operator

Yes this is Cathy, the operator. We are back.

<A - Todd A. Becker>: Okay, no fire?

Operator

Yes, and there was actually no fire.

<A - Todd A. Becker>: Okay. So, if – I think Farha is still queued up as number one here. You want to still, Farha, if you want to try and get her on first?

Operator

Certainly. And Farha with Stephens, Inc., your line is open to ask your questions.

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

<A - Todd A. Becker>: Hi, sorry about that.

<Q - Farha Aslam>: No worries. And just a quick a follow up, in terms of ethanol production and exports for the full year, what do you expect the industry's run rate to be, and how do you see margins playing out for the remainder of the year?

<A - Todd A. Becker>: So we expect run rates to continue to stay between 950,000 and 990,000 to 1 million barrels a day. And with that said, though, what we're starting to see is getting into a better summer driving season and hopefully exports continue to remain on pace. Our view is exports will be somewhere between 800 million and 1 million – or 1 billion gallons, 800 million gallons and 1 billion gallons. We'll wait to see the March results. We expect that to be very strong.

The business is moving more towards nearby, so the Q2 book is smaller than we'd like to see but I think they are waiting to see if the Brazilians will be competitive in the market. Today they are not competitive on price, but they want to see if this bigger sugar harvest will be impactful. But their demand down there is very strong as well. So most of the first quarter, we were overproducing by 40,000 barrels a day. In the last four weeks, though, we started to catch up where demand caught up to supply, as supply has decreased a little bit and we were starting to draw stocks. We think tomorrow could be potentially another draw, as we've seen some stocks draw around the U.S. as we continue to load boats. So we'll just have to wait and see.

But overall, as we see export demand and us pricing very well against gasoline in the world, I think margins will be steady, I'm not sure there's a huge impetus in 2016 for any extremely strong margin environment, unless we continue to see draws, but I think the big number to watch, and we put the chart on there, is the days of demand. As days of demand keeps coming down, the market is getting tighter, but we're – but the corn market has rallied $0.20 or $0.30 from the lows, and that has put a bit of an impact on the margin structure. But overall we still have a slightly bullish stance on overall energy prices, which includes ethanol, and as long as this crop maintains itself and we get it planted, we have a slightly bearish stance on agricultural products from a fundamental standpoint.

So overall we expect margins to be steady, and until we see something other than what we talked about, I'm not sure there's any impetus that takes it extremely higher but I think it will be enough now to operate in our margin.

<Q - Farha Aslam>: And that steady is that high single/low double-digit margin that's comparable to the breakeven margin, the ethanol crush margin that you discussed in the first quarter?

<A - Todd A. Becker>: Yes, I think that's basically where we're at today. We did see some try to rally during the quarter, a bit into the low teens, but it didn't stay there more than a couple of days, because the corn market took off along with the bean market. So that's what we're watching very closely. Fundamentally, there's no real reason for this corn market to be at these prices, but the technical money has come into the market, they bought back their short, they got long and they are taking soybeans with it.

So we're just – it's something that we have to deal with, but overall the fundamentals remain very solid for ethanol, and again our view was 2016 would be a softer year, but 2017 is really the year when it all kind of comes together and demand continues to catch up. We're starting to see good roll-off – roll-out on E15 in a lot of national chains, so we expect 2017 to be a big year for that as well.

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

Operator

And our next question will come from Heather Jones of BB&T Capital Market.

<Q - Heather Lynn Jones>: Good morning.

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

<Q - Heather Lynn Jones>: So I want to make sure I'm understanding correctly, when you say high single-digit/low double-digit, that's a consolidated crush that you put at simply breakeven for Q1?

<A - Todd A. Becker>: That is correct.

<Q - Heather Lynn Jones>: Okay. And when you talk about that for Q2, is that where you think consolidated Q2 margins are going to come in, or is that where that 50% you've hedged is locked in?

<A - Jerry L. Peters>: Well actually, the 50% we hedged we locked in a little bit higher than that, and the margins are a little bit lower than that right now. So overall that's where it's coming in, but margins are starting to see another uptick in the last couple of days after it got pushed lower with this corn rally. So we're going to wait and see. We still have [ph] Great Basin review (30:41) for the rest of the quarter now. We have a lot of open position, and we're still getting the benefit of that. But the reason that we are able to achieve that is because of some of the – on the higher days we lock in some margins, but yet to be determined what the final number will be for the quarter until we see what the crush does for the next couple of months.

<Q - Heather Lynn Jones>: And do you have any of Q3 or Q4 locked in? It's just Q2?

<A - Jerry L. Peters>: No, we just had the opportunity for Q2. Q3 started to go onto the high single-digits, but that's come back a little bit here with this corn rally. And again, we'll just have to wait and see where that ends up. But no, nothing beyond Q2 at this point. But at least it was good to see, because we – I would tell you, over the last six months had very little opportunities to lock margins away. And we finally saw the opportunity in Q2, and it was the right thing to do to reduce some of the volatility of the spot crush.

<Q - Heather Lynn Jones>: Okay and I'm not trying to belabor or be dense, but I just want to make sure I am understanding your answer to Farha's question. Clearly the markets are very volatile, but are you saying – were you answering her and saying that your view of supply and demand balance, et cetera, that you would expect that consolidated crush margin to be in that range for the rest of the year? I know you haven't locked it in, but is that what you're saying your expectations are for the rest of the year, or are you not giving any guidance on what you think Q3 and Q4 could be?

<A - Jerry L. Peters>: Yeah, right now Q3 margins are mid to high single-digits consolidated. Right around mid single-digits consolidated, and so we are not doing anything out there. We are going to wait and see as the fundamentals transpire. Our view is that we just continue on a strong summer driving season, that will take a little while to ramp production back up, and hopefully we start to see some expansion and the corn markets set back a little bit. So, we're not giving any view on the forward crush, but I think that overall there isn't anything telling us we need to go into mid to high teens yet. But we were pushing that here a couple of weeks ago for a few days.

Again, it's just going to be a function of if we get the 93 million acres in, and we're off to a very good growing season, there is absolutely zero reason for the corn market to be here except for the fact that the technical money is making a stand. So we'll wait and see if we get a setback in the corn market to see if we lock some more margins away. But again, we don't have a long – I don't think there is a view on exactly where the margins will be in Q3 and Q4 yet.

<Q - Heather Lynn Jones>: Okay. And as far as the outlook for 2017, you talked about a number of things coming together, but there's a thought out there that the RIN inventory, assuming we don't get – and down [ph] RB over 17, but (33:30) at least flat so maybe up slightly. There's a thought that the RIN inventory could be fairly tight going into 2017. First of all, wondering what your thoughts are on that, and what else gives you confidence in the 2017 outlook?

<A - Todd A. Becker>: Well, we believe that – we agree with you that the RIN could get tight as we end 2016, going into 2017. Our outlook is that we will do somewhere between 150 million to 350 million gallons of E15, more towards that 250 million gallon range in 2017. That's what we are ramping up – I mean, to give you an example, Conoco is now 110 stations and we're starting to see others announce stations in those type of range. Hundreds at a time that are making the switch to...

<A - Jerry L. Peters>: If I can add, Sheetz has completed their 60 stations in North Carolina. Sheetz just finished their 60th E15 station in North Carolina completely. These are the big stations.

<A - Todd A. Becker>: So we think, from that standpoint, potentially 250 million gallons of extra demand for 2017. We believe exports will remain strong, in that 800 million to 1 billion gallon range, based on what we're seeing coming out of China, India, Philippines and other parts of the country. We still believe sugar, from a price standpoint has a chance to lead the way versus the corn pricing. Again, widen the spread between corn, sugar produced from the corn kernel versus sugar produced in Brazil, and there's a strong bias towards higher markets there. So when you kind of look at all of that, and look at our competitiveness in the world, stronger energy prices overall as we kind of go into mid 2016 and late 2016.

Overall, when we look at all of those supply and demand fundamentals – and I also believe that the creep that you've seen in the industry, like our creep, for example, is pretty well done. I mean, we don't have a lot of capacity creep left other than the fact that we can add more capacity, but we put those bigger projects on hold, other than the initial ones that we announced. So I think overall, what you've seen in the past 12 to 18 months on capacity creep in ethanol will slow down dramatically. I mean sure, people will always go after a little extra gallons, but I'm not sure there's a bunch left after what everybody has done in the industry to get to a million barrels a day of capacity.

So when you put all that into the hat, better demand globally, better demand domestically with E15, higher energy prices overall, and potentially a 93 million acre corn crop with a – any kind of trend-line yield would give us a good fundamental environment going into – and a tighter end market, going into late 2016. early 2017.

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

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

Operator

And now we'll go to Laurence Alexander of Jefferies.

<Q - Laurence Alexander>: Good morning. Just a couple. I think when you were talking to marketing and distribution it was mainly the mark-to-market effects. What else was going on? And secondly, the vertical integration savings you discussed, was there any contribution this quarter or is that just purely a sort of back half of the year and more a 2017 story?

<A - Jerry L. Peters>: Well, no, I mean – again, the problem with some of that is we had mark-to-market that we had to deal with the inventories ready for export. So for example, corn oil is a disintermediation play where we're going in export-wise, taking it out of domestic hands and building our customer base, and we took a -- and some of the market distribution was those inventories that are in place but couldn't be exported and couldn't be realized.

In addition, our DDG program was – we became the number one exporter in Vietnam, the number one exporter in Thailand, and we've moved up – and one of the largest exporters of overall containers out of the U.S. Somebody else was doing that business, and it contributed to market distribution. The problem being that we had this big offset on these mark-to-market accounting conventions that we had to deal with because of the way that the business is structured. We're starting to see the benefit of low corn basis in the United States, and we're buying it from the farmer. So for example, in some of our facilities in Northwest Iowa, we're paying 35 to 40 under direct to the farmer and buying the farmer corn.

And then lastly, I mean the big impact was some of our energy trading businesses in market distribution, while certainly had a negative mark-to-market impact, all of that margin is locked away and will come back in the next three quarters. So that's why we leave the $25 million to $30 million on the higher end of our range; when we say $5 million to $7 million a quarter for marketing and distribution, we're actually giving you guidance on the higher end of that range, $25 million to $30 million for a full year, still in 2016, because of the confidence we have in disintermediation downstream, and the confidence we have in the accounting convention reversing. So – and we'll start to see the benefit of [ph] farmer urge station (38:37) really come during Q4 harvest period as well, as we finally take the advantage of the 47 days of grain storage that we have in our supply chain.

<Q - Laurence Alexander>: And then have you seen any evidence of smaller competitors higher in the cost curve actually shutting down in this weak margin environment?

<A - Jerry L. Peters>: We saw a few people shut down, but as the margin – you know, everything happens very fast, so the numbers you're seeing are actually – people have come back on line as well. So you'll start to see our weekly numbers pop back up a little bit. We did see some plants shut down, not significant, which you've seen them in the numbers and we were still running 960 to 980 a day throughout the whole cycle. The demand was catching up and the draws were catching up.

So now that we're kind of down in the 940 range, and we'll see what production is tomorrow, so we can see a potentially big draw again. I think it puts us on solid footing as we go into summer. But no, I don't think anybody – I would say besides ourselves, we ran slower in the first quarter. I don't believe the market was quite as disciplined as that during the first quarter.

<Q - Laurence Alexander>: Thank you.

<A - Jerry L. Peters>: Thank you.

Operator

And our next question will come from Ed Westlake of Credit Suisse.

<Q - Edward George Westlake>: Yes, so just maybe following on from that question around others not running perhaps in a disciplined as way, are you seeing folks starting to raise the white flag in terms of [ph] corn for sale coming into your desk (40:03) in terms of consolidation?

<A - Todd A. Becker>: No. Ed, I mean there's not – one quarter after several years of most of the industry making money – and we made money last year as well, I mean it wasn't a lot but we were in – most of the industry was profitable in 2015. One quarter of a down cyclical is not enough – nobody's waving the white flag. There's a couple of things that you've seen out there, or some distressed assets, but those aren't distressed because of performance in 2015 overall; that's distress for other reasons. And then you've seen some others talk about selling assets, but there is not a lot of assets for sale right now, and there's really not much – I would say it's a very inactive M&A market broadly across the ethanol space today. Nobody's throwing the white flag in at all.

<A - Jerry L. Peters>: The balance sheets are really pretty strong across the whole industry, very little debt and some reasonable cash positions.

<Q - Edward George Westlake>: You mentioned...

<A - Todd A. Becker>: They're generating cash again this quarter. So, one quarter of a cyclical down is not going to cause anybody to panic.

<Q - Edward George Westlake>: You mentioned some brief comments on yield around Hereford and Hopewell; maybe just a more sort of fulsome sort of explanation of the performance that you're seeing of those two assets?

<A - Todd A. Becker>: So, start with Hereford because that asset is running fully. We've stepped into a very good operating asset that Murphy did a lot of work on. We stepped up some of the things that we were able to improve immediately down there. That asset contributed well during the quarter and it's contributing during the second quarter. It's kind of middle of the range margins in our model, not the best but it's also not on the lower end of the margin structure.

Hopewell we're just turning on, but we have made significant strides in Hopewell. The DDGs that they were getting at 20% to 30% market discount on, we have fully fixed that problem. We are exporting those DDGs in containers now at the same value equivalent to the Midwest and the same quality. We've now running – Jeff, we're running Hopewell at what rate right now?

<A - Jeffrey S. Briggs>: We're kind of in the 55 million to 60 million gallon a year rate and that's continuing to ramp up. So we are excited about the plant, it adds some unique capabilities too. If the export market opens back up to

Europe, we think that could be a great asset for us. And it gives an additional window, and it's a big market out there in Richmond, and so we're continuing to fill in the blanks there, get the volumes on, establish customer relationships, and so operating-performance-wise I think it is going to be a good asset for us.

<A - Jerry L. Peters>: So just to close on that, that asset never ran like that, that asset was never able to sell to distillers like that. Corn oil will be online by June, and at that point we'll make – we can see the real assessment as we're running at full rate, getting full value, and also seeing corn oil. At that point we'll know all the metrics there, but thus far we have been able to get that plant operating like it should in a very small amount of time. For a very low cost, by the way.

<Q - Edward George Westlake>: And then just a sort of this-year kind of question around RINs and blend ratios. I mean the data is obviously just the data, and maybe we're misinterpreting it, but it looks as if the blend ratio has actually gone down a little bit this year, which is unusual. Do you think folks are just drawing down RINs as ethalyne spiked – sorry, ethanol spiked above gasoline earlier in the year, or what do you think is happening there?

<A - Todd A. Becker>: Actually it's – Steve – it's pulled back a little bit, but overall, year-over-year, we are still increasing the blend and we're still up on demand year-over-year. I think some of that is just some weekly data that might – it'll get corrected out, but we don't see any reduction in the overall blend at all. And RIN, I don't think anybody – in fact it's the opposite, I mean anybody that can get a RIN is blending to the maximum right now, it's because RIN values are still in the low 70s. Aren't they Steve?

<A - Carl Steve Bleyl>: $0.73.

<A - Todd A. Becker>: $0.73. So from that standpoint, I don't think anybody's going to buy a RIN to not blend, because there's actually a positive blend margin as ethanol is under gas. And then the guys that can earn the RIN will blend at maximum levels.

<Q - Edward George Westlake>: So it was just overproduction from ethanol producers that led to the high inventories?

<A - Todd A. Becker>: 40,000 barrels a day.

<Q - Edward George Westlake>: Okay, cool. Thanks very much.

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

Operator

And our next question will come from Sandy Klugman of Vertical Research Partners.

<Q - Sandy H. Klugman>: Good morning. In the past you've talked about increasing your ethanol capacity to over 2 billion gallons per year in roughly a five-year timeframe. What's the current plan, and how much of the added capacity would have to come from M&A versus internal debottlenecks, and what do you expect the ballpark per-gallon cost of those internal debottlenecks to be?

<A - Jerry L. Peters>: Yes, I have been looking forward now as we're kind of pushing towards that 1.2 billion gallons to 1.3 billion gallons, I think there's still another 100 million gallons we can get out of the platform but it's getting expensive at that point. That's at least $0.80 a gallon to $1 a gallon to go after that last 100 million gallons, and we are not focused on that today at all. I mean, that capital project has been delayed for the time being until we see some structural shift in the underlying fundamentals.

So when we look at that we can get to 1.2 billion gallons to 1.3 billion gallons along our platform, and then everything else we believe will still come from consolidation going forward. And when you look at that today, the market is still very undefined. Good assets are not – the highest quality assets are not available. And really right now hard to say where assets would trade that are available. So I don't have a good view on that today, as the M&A market is very slow to develop, but I still think – I still believe long-term the industry will consolidate, and I still believe long-term GPR Green Plains will be a 2 billion gallon producer. It's just – it's going to depend on different environments and different opportunities and different timing.

<Q - Sandy H. Klugman>: Okay, thank you. And then, you've discussed your desire to use the MLP to acquire non-ethanol-related distribution assets. Is there any update you can provide on what types of opportunities you might be targeting or seeing?

<A - Jerry L. Peters>: Yes, we're very active looking at opportunities in the Green Plains Partners' downstream assets, including everything from looking at partnerships, to new builds, to joint ventures, to mergers, to looking at purchases of individual assets as well. So I would say that's one of our most active M&A campaigns right now. Nothing to talk about. Obviously these things take time. But our goal is to use that asset in all of our businesses, that we will be able to support those assets that are purchased, built, bought, or merged in that space, and we continue to focus a lot of effort on trying to come up with an announceable transaction of one of those types.

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

<A - Jerry L. Peters>: Thank you.

Operator

And next we'll take a question from Craig Irwin of Ross Partners.

<Q - Craig Edward Irwin>: Good morning, and thank you for taking for my question. So there's lots of press coverage out there about how the Brazilians are really hoping for a record crop on sugar cane this year. Can you talk a little bit about what you mentioned in your presentation, the dynamic of strong sugar pricing today and the possible shift that that's going to drive Brazilian cane away from ethanol production? And can you maybe just clarify for us, are you already seeing this happen now, or do we need to see higher sugar prices for this dynamic to play out?

<A - Jerry L. Peters>: Well, we saw a little bit of that happen here on that last run-up of sugar, and then the market broke hard on some data that came out, and then we started to rally back again based on new data that came out. So we believe still there is a imbalance in the global sugar market of approximately – Walter?

<A - Walter Cronin>: About a million metric tons.

<A - Jerry L. Peters>: About a million to 2 million metric tons.

<A - Walter Cronin>: Probably two next year.

<A - Jerry L. Peters>: And two next year. So with that – saying that, I mean it's a – something that will play out. Obviously we're dealing with the front end of a very good realizable sugar crop in Brazil, but overall the world and the global dynamic is still not in balance. And so that is – it is potentially setting itself up for a very strong last half of the year sugar market as we get through this Brazilian harvest period. And going into 2017 we think the imbalance will even be greater. So that's why we talk about things like that.

Now in the nearby, could we see the Brazilians try to compete for some of the destinations that we've taken from them? I think we can, but I also believe that will take some ethanol out of their market, and we're starting to see them as well look at the U.S. for importing requirements as well. So overall I don't think it changes our dynamic of 800 million gallons to a billion gallons of exportable opportunities, but I still think we're – the world thinks Brazil's going to be here in a big way, right at this point, which is why they're delaying some of their purchases. But I think we have very big pent-up demand for global ethanol demand right at this point, as the market has become more of a nearby spot market. So more to play out, but our view is that sugar has an imbalance globally, and will be – will remain strong and become stronger toward the end of the year.

<Q - Craig Edward Irwin>: Thank you for that. My second question is related directly to exports. So Peru, Argentina, Mexico, obviously some pretty positive changes to support incremental demand for exports. Can you talk about whether or not you've been having direct conversations with ethanol buyers in those countries, and the potential timeline for us to see that impact broader markets?

<A - Todd A. Becker>: I'll let Steve comment on that, because he's been around the world here in the last month or so talking to buyers. Steve?

<A - Carl Steve Bleyl>: We have. We've been to Peru; Argentina, we read where they're looking to increase their blending piece, and right now they export little bit into Chile; and Mexico, of course everybody's talking to Mexico. There's people looking at different ways to access in, and you saw where there's a new terminal being built by Watco, one of the short lines down there to receive unit trains of ethanol into Mexico now. So Veracruz and even parts of the interior are ramping up to start receiving ethanol into it. So the short answer is yes, we are talking to direct buyers down in Mexico.

<A - Todd A. Becker>: And Steve was also, just got back from a trip in the Far East. He's been to Philippines, India, China all coming back with positive disposition of continuing to look at the program.

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

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

Operator

Our next question will come from Selman Akyol with Stifel.

<Q - Selman Akyol>: Thank you, my questions have been answered.

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

Operator

And moving next to John Edwards of Credit Suisse.

<Q - John Edwards>: Yes, good morning everybody, and thanks for taking my questions. Just a couple for me. Given that your coverage was a little bit tight this quarter on the partnership, on Green Plains Partners, if you could talk a little bit about what your expectations are for distribution policy for this year, and then also if you could just comment or confirm, you made some comments about your acquisition campaign for the partnership; if just confirm how that – on that end of things, how that market is looking for you guys?

<A - Todd A. Becker>: Go ahead Jerry, you want to talk about distribution?

<A - Jerry L. Peters>: On distribution coverage, we were a little tighter just for the quarter, and again that's driven by our throughput on our ethanol storage assets. As we ramp up, as the margins have expanded on – for Green Plains, Inc., we would expect our throughput to jump pretty nicely in the coming quarters, kind of through the rest of the year. And should – absent a significant distribution increase, should drive a higher coverage. And in that spectrum where we're more focused on driving higher coverage ratios than necessarily driving a huge increase in the distribution. So I think our pace is reasonably comfortable, and it should – with that pace we should be driving a higher and higher distribution coverage over the coming three or four quarters.

<A - Todd A. Becker>: Then on M&A, we'll just continue to focus on executable M&A, and more to come on that. I mean, we're definitely trying to make sure it's the right transaction when we make the announcement for the first transaction. And we believe that we are on track for one or several of these that could potentially hit in the last half of the year.

<Q - John Edwards>: Okay, so you've seen a – I mean, has there been any change in the M&A environment there? It's about the same, a little less opportunity, or more, I mean any changes there?

<A - Jerry L. Peters>: You know, what we've seen across the board – and I'll comment on both the MLP and agricultural markets, as well, is that our belief is that multiples have to come down a little, especially more on the agricultural side than on the energy side to date on assets that we're looking at. And opportunities, if you have liquidity and you can move very quickly, there are definitely opportunities out there that can give good benefits to our shareholders. So you still have some competition, but overall with our strong liquidity position as a parent, and still have liquidity open at Green Plains Partners, we believe that we're in a good position to potentially look at some acquisitions with maybe a little softer multiples than we've seen over the last couple of years.

<Q - John Edwards>: Okay. That's helpful, thank you.

<A - Jerry L. Peters>: Thank you.

Operator

And next we'll go to Ethan Bellamy of Baird.

<Q - Ethan H. Bellamy>: Hey guys, just a couple of follow-ups on John's questions. So with respect to the distribution policy, is the current maintenance CapEx rate good, and where would coverage need to get before you'd consider a distribution increase?

<A - Jerry L. Peters>: I think the current maintenance CapEx range, as I said about $30,000 to $40,000, I mean even if it's $50,000 it's pretty comfortable. We don't have a lot of big projects coming up on the maintenance side. And in terms of coverage, again, we're looking – even though we report coverage for the quarter, we're looking at coverage on a long-term basis. So we're looking at last 12 months; once we get into where we've had four full quarters reported, we'll be more focused on coverage ratio for that rolling 12-month period.

As we said on the road show, we'd like to get into the 1.1-times coverage ratio area, and again, in this market environment it seems like companies just aren't being rewarded for increasing the distribution, so much as they're being rewarded for improving coverage and keeping the balance sheet really clean.

<Q - Ethan H. Bellamy>: Okay. And then I think I heard you guys say that you'd expect coverage to improve based on increased throughput and you had, in non-affiliate gallons, about a 14% decline this quarter. Is that something you'd expect to bounce back, and where's the right rate for modeling purposes for the rest of the year there?

<A - Jerry L. Peters>: Yes, I mean in terms of the non-affiliate gallons on the terminal services – this is the downstream terminals – they were a little softer in the first quarter compared to the fourth quarter of last year. But actually had very little impact on our cash flows, because we have minimums on that. And they were down kind of across the board at some of our terminals. Birmingham is the big one, and probably the prime example. A little bit more competition with ethanol in those markets being produced by local plants, meeting the market demand just with trucking rather than railing it in. And so we had a little softer volumes in Birmingham, but again that's covered by minimum, so had very little impact on us from a cash flow standpoint.

<Q - Ethan H. Bellamy>: All right, thank you all.

Operator

And Pavel Molchanov of Raymond James has the next question.

<Q - Pavel S. Molchanov>: Hey guys. First kind of a, maybe a niche question in relation to the underlying business. We've seen a number of your competitors deploy cellulosic retrofit technology to get maybe 5% cellulose output from traditional corn mills. Is that anything that you've looked at deploying to earn some extra RINs?

<A - Jerry L. Peters>: Yes. We are not focused on that, in fact I'm not sure several of our competitors have done that, or if they've done it successfully, we haven't heard of that. Again, we're – we haven't seen anybody able to crack the code, necessarily, of going after that, whether it's the next cellulosic gallon or cellulosic overall. So from our standpoint, we have not seen any technology that we would invest in today that is giving us that opportunity. I think we'll be a wait-and-see; we're always a fast follower, if there's something is successful and it works we'll be right on it, but we will not be the early adopter of any of that, and I don't believe today from our standpoint it exists for our platform.

We continue to focus on, a bit on the algae initiative, and we are continuing to take a larger ownership stake in that business. We have some initiatives there that we see some exciting things are happening. We'll – it's a wait-and-see again, but we will come back to you on that in the next several quarters. Again, we're not giving up on that initiative at all, we have some interesting uses within the ethanol value chain that we've been coming up with, and we'll wait and see if those transpire into anything positive. But right now that initiative is all – where we're deploying some capital, but again not a huge cash burn in that business.

<Q - Pavel S. Molchanov>: Sure. And then turning to the MLP, you alluded to the markets rewarding strong balance sheets, absolutely true. Your current debt-to-EBITDA metric is less than 1.5. What would be the upper limit of that leverage that you would be comfortable with?

<A - Jerry L. Peters>: I would say in the three and half to four turns would be kind of the upper limit, and again, typical for MLPs, we can flex up probably above that as long as we then pull it back down by an equity issuance. But when you look at a three and half to four turns for a leverage limit for us, I mean, it gives a significant financing capability just on the debt side to fund the projects that we have ahead of us.

<Q - Pavel S. Molchanov>: Very good. Appreciate it.

Operator

And now we'll go to Brett Wong of Piper Jaffray.

<Q - Brett W. S. Wong>: Hey guys, thanks for taking my questions. So Todd, given where the Ag commodity prices have gone, albeit not on the fundamentals, but what's your expectations for corn planting this spring? I mean, you mentioned the 93 million potential, as the USDA has suggested, but what do you really think that the plantings will be?

<A - Todd A. Becker>: Oh, we really think they're going to be 93 million acres, or potentially even higher than that. The farmer is fully going for corn acres this year. He's been rewarded for it. The strategy of waiting out the breaks, he had a chance to sell 406 in front-end corn here. Even with the basis weaker, we bought in one week the most amount of corn that we would have bought in a long time, in terms of that one week of the rally. So the farmer is fully loaded and engaged on any of these rallies and has been rewarded for planting corn. And I think he believes – and the farmer believes they will be continue to be rewarded for planting corn.

We have wide-open 10 days here with weather to finish this thing up, and in our view, even with the corn ratios where they are at, they are still going to finish this corn crop as indicated in that 93 million acre range. The real question will be – and we have a great start, and we just basically put one to two inches over the whole western corn belt, and we're off to a great start on weather. Again, we were here in past as well, and we'll have to wait and see where we finish, but our view is we're going to be able to achieve those acres.

<Q - Brett W. S. Wong>: Okay, great. And just talk to your DDG market expectations and some of those ongoing softer prices out there?

<A - Todd A. Becker>: Yes, softer is relative. I mean, we have seen markets come back actually from those softer prices. As the run rates went down a little bit, markets got tighter, fats went up, soymeal went up, and so when we look at all of that, DDG prices hold steady. Where the Chinese have stepped out, others are stepping in. We're starting to see more demand come from other Southeast Asia countries, as well as good demand domestically and higher inclusion rates, again, as we fell to those levels. So I think we found the floor, and we've come off that floor and we're holding steady now.

Again, any excess demand that shows up would really set – the market really isn't prepared for that at this point, because there are no excess DDGs around today. So we've found equilibrium at these levels.

<Q - Brett W. S. Wong>: Great, thanks a lot.

<A - Todd A. Becker>: Thank you very much. And...

Todd A. Becker

Sorry. Again, I want to thank everybody for coming on the call today. Obviously not the quarter that we would have wanted to report, but overall our company remains in solid financial shape. We're looking forward to some positive fundamentals. Hopefully they transpire into a better margin structure out on the curve. And I think we are very well prepared as a company to handle these cyclical downturns, and when they turn up we'll be very prepared to be in a much better position as well. So thank you very much for calling today, and we'll look forward to next quarter.

Operator

And with that, ladies and gentlemen, this does concludes today's conference call. We'd like to thank you again for your participation. You may now disconnect.