THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

GPRE - Q2 2017 Green Plains Inc and Green Plains Partners LP Earnings Call

EVENT DATE/TIME: AUGUST 01, 2017 / 3:00PM GMT

CORPORATE PARTICIPANTS

Carl S. Bleyl *Green Plains Inc. - EVP of Ethanol Marketing*

Jerry L. Peters *Green Plains Inc. - CFO*

Jim Stark *Green Plains Inc. - VP of Investor & Media Relations*

Todd A. Becker *Green Plains Inc. - CEO, President and Director*

Todd A. Becker *Green Plains Partners LP - Chairman, CEO & President - Green Plains Holdings LLC*

CONFERENCE CALL PARTICIPANTS

Adam L. Samuelson *Goldman Sachs Group Inc., Research Division - Lead Analyst*

Brett William Sprinces Wong *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

Craig Edward Irwin *Roth Capital Partners, LLC, Research Division - Senior Research Analyst*

Ethan Heyward Bellamy *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Farha Aslam *Stephens Inc., Research Division - MD*

Heather Lynn Jones *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Laurence Alexander *Jefferies LLC, Research Division - VP and Equity Research Analyst*

Omar J. Mejias *BMO Capital Markets Equity Research - Associate*

Pavel S. Molchanov *Raymond James & Associates, Inc., Research Division - Energy Analyst*

Sandy H. Klugman *Vertical Research Partners, LLC - VP*

Selman Akyol *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

PRESENTATION

Operator

Good day, everyone, and welcome to the Green Plains Inc. and Green Plains Partners' Second Quarter 2017 Results Conference Call. Today's call is being recorded.

And at this time, I would like to turn the call over to Mr. Jim Stark. Please go ahead.

Jim Stark - *Green Plains Inc. - VP of Investor & Media Relations*

Thanks you, Dana. Welcome to the Green Plains Inc. and Green Plains Partners Second Quarter 2017 Earnings Call. Participants on today's call are: Todd Becker, President and Chief Executive Officer; Jerry Peters, Chief Financial Officer; Jeff Briggs, our Chief Operating Officer; and Steve Bleyl, 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 2 of the website presentation for information about factors that could cause different outcomes. We do not undertake any duty to update any forward-looking statement.

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

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Thanks, everyone, for joining the call this morning. We reported a loss of $16.4 million or $0.41 a share for the second quarter. After the last conference call, the ethanol margin turned negative to breakeven across our platform as industry stocks did not draw as compared to previous years during this time period, even as we're heading into summer driving season.

We generated a consolidated gross margin of $0.07 a gallon, that was $0.08 a gallon less than we generated the second quarter of 2016. The ultimate weakness in the ethanol margin during the quarter was a result of too much ethanol being produced by the industry, top lined by ethanol inventory securities carried into the quarter because of the weak gasoline demand in Q1. In addition to price-performance starting to get affected by a less than ideal weather situation, which is finally tempering itself.

Based on what we were experiencing, we took our production level down by idling approximately 50 million gallons of production capacity during the quarter. So the following facts drove our decision making process: First, during the first 5 months, the industry drew 1 million barrels this year as compared to 2.3 million barrels of 2016 with a higher starting point because of gasoline demand. In the past, margins have historically shown consistent improvement as we enter the summer driving season, yet in early May, nearby margins turned negative for the first time in 5 years. Between April 24 to May 8, margins dropped in our model $0.15 a gallon and never fully recovered. And right after the drop, the corn market began its march up $0.25 a bushel or $0.09 a gallon, which again did not allow for a recovery. Stocks were not drawing from the mid-23 million barrel level either. Compounded with all of this, the unwinded Q1 ethanol -- the Q1 ethanol carry trade.

So with all this information, we decided to idle 9 of our plants to reduce production for the quarter by approximately 50 million gallons between May 25 and July 5. We believe our actions had a positive effect on bringing industry ethanol stocks into a more stable supply and demand balance. In fact, for Q2, through June, Q2 stocks drew 9%, which is a greater draw during that same time period a year ago. Between these dates mentioned, stocks went from 23.5 million to 21.8 million barrels, published 1.2 million with our reduction alone, peak to trough during our slowdown, we saw margins improve over $0.10 a gallon in the spot market. While too late to rescue weak Q2 margins, margins in Q3 and Q4 improved as well. And would it not have been for the corn rally over the last month or 2, the impact we believe would have been greater.

I'll discuss the way this industry fundamentals later in the call, but we saw the impact of 50 million gallons of downtime, and for our shareholders, it was the right thing to do to set up a longer term positive setup for the last 6 months of the year versus the second quarter.

Finally, with regard to a few of our smaller assets, we have transitioned York to all industrial B-grade production, and Hopewell is down for several upgrades over the next couple of months, which takes over 100 million gallons of annual production off the fuel markets for the time being.

Green Plains produced 275.5 million gallons of ethanol compared with 274.3 million gallons for the same period in 2016. This was below the minimum volume commitment to the partnerships so Green Plains Trade did make a small MBC payment to Green Plain Partners for the second quarter, which shows the resilience of the partnership during structural downturns in the margin structure.

EBITDA was $24.1 million, which was led by a strong contribution from food and ingredient segment. Segment EBITDA, excluding ethanol production and corporate activities, totaled $33.8 million for the second quarter of 2017, and for the first half of the year, totaled $71 million of EBITDA.

We believe we are on track for these 3 segments to generate approximately $150 million in 2017.

The Ag and Energy segment was down in the quarter driven mainly by the valuation of merchant inventories held for forward business that is fully hedged and -- as well as we had less opportunities to take advantage of in our merchant businesses. We anticipate the profits of these head sales will be realized in the fourth quarter of this year, keeping the ag and energy segment EBITDA in the $30 million to $35 million range for 2017. We have seen quarter to quarter moves like this in the past, where profits are fully recoverable in forward quarters and we expect that to be the same this year.

Our expected -- our expectation for 2018 remain that the non-Ethanol segments can generate between $165 million and $190 million of combined EBITDA, that's broken down by food and ingredient between $60 million and $80 million of EBITDA; ag and energy, $30 million to $35 million; and Green Plains Partners approximately $75 million.

This is a solid base of EBITDA this company can generate in addition to the segment EBITDA we will realize from ethanol production. The transition of the feedlots we purchased in May is going smoothly. At the end of Q2, we had 30% more company on cattle on feed that we did in the first quarter of this year. We are pleased with the steady results we are generating from our cattle business and Fleischmann's Vinegar. The food and ingredients segment generated nearly $14 million of EBITDA in the second quarter, which we believe will continue to grow as we transition to full company ownership of cattle in our lots during the third and fourth quarter. The full margin realization will be -- will start to be felt in early 2018.

Green Plains Partners reported $16.7 million of adjusted EBITDA and a coverage ratio of 1.05x for the quarter. We did increase our distribution to $0.45 for the second quarter and added the 7th straight quarter of increasing distributions.

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

Jerry L. Peters - *Green Plains Inc. - CFO*

Thanks, Todd, and good morning, everyone. For Green Plains Inc., consolidated revenues were $886 million in the second quarter, which was basically flat to a year ago. Revenues were impacted by the additions of Fleischmann's Vinegar during the fourth quarter of 2016, the ethanol plants we acquired in the third quarter of 2016 and the 3 cattle feedlots acquired during the first and second quarters of 2017. This was partially offset by a decrease in Green trading activity volumes and lower average realized prices for distillers grains.

Consolidated volumes of ethanol sold for the quarter were up 7% to 381 million gallons, the average realized price per gallon was up slightly over last year's second quarter. Our utilization for ethanol production assets was approximately 75% for the second quarter of 2017. Consolidated net operating loss for the quarter was $3.8 million versus operating income of $27.4 million a year ago.

This decrease is primarily due to a $30 million reduction year-over-year in our ethanol production settlements. Earnings before interest, income taxes, depreciation and amortization, or EBITDA, for the second quarter was $24.1 million compared to $47.7 million for the second quarter of last year.

For Green Plains, our total CapEx was approximately $17.9 million in the second quarter, including our investment in the construction of the Beaumont joint venture as well as $4.6 million for normal maintenance capital expenditures. Our total debt stands at $1.1 million -- $1.1 billion at the end of the second quarter. This balance includes $341.5 million on our commodity revolvers, which are secured by significant working capital or readily marketable inventory of $363 million at June 30.

Late last week, we upsized our senior secured revolving credit facility at Green Plains Trade from $150 million to $300 million. This amendment also will increase inventory advanced rates, expand eligible inventory locations and commodities and reduce the pricing by approximately 50 basis points. Earlier in the quarter, we increased our cattle revolving credit facility from $100 million to $300 million to fund the shift to company owned cattle in the new lots. Both of these financings were well received in the market and we believe position our ag and energy services and food and ingredient segments very well with ample liquidity.

Also last week, we hosted a lender meeting as we are considering issuing a new term loan B to refinance our existing term debt facilities on our ethanol plants and Fleischmann's Vinegar, to total just over $400 million. This new term loan would be at the corporate level, which we believe simplifies our debt structure, allows our cash to move more freely within our wholly owned businesses. We will keep you updated on our progress toward achieving this key objective.

Also during the second quarter, Green Plains entered into private and negotiated agreement with holders of the company's 3.25% convertible senior notes due 2018. Under these agreements, the company exchanged in the aggregate approximately 2.8 million shares of common stock and $8.5 million in cash or approximately $56.3 million in principal amount of the 2018 notes. We chose to utilize some cash in one of the transactions as we felt the share price at the time represented a compelling value. These transactions were completed to manage our capital structure in anticipation of the term loan B refinancing I just mentioned. We recognized a $1.3 million noncash loss, including an interest expense from this debt extinguishment.

On Slide 9 of the IR presentation, you will note our term debt declined by over $50 million resulting in a reduction of our pro forma term debt leverage to 2.5x at the end of the second quarter. Our liquidity remains solid with $225 million in total cash on the balance sheet, along with $171 million available under our revolvers as of June 30, and of course, that excludes the impact of the revolver modifications that I just noted.

For Green Plains Partners, we reported adjusted EBITDA of $16.7 million, an increase of $4.7 million, or an increase of 4.7%, excuse me, from the second quarter of 2016, which was $16 million. The adjusted EBITDA includes a $1 million deficiency payment as a result of our ethanol production running below the MBC of 297 million gallons for the quarter. Under the terms of the storage contract, Green Plains trade is allowed to utilize that payment as a credit against volumes above the MBC level during the next 4 quarters. We expect that will occur fairly quickly.

Green Plains Partners had 284.7 million gallons of throughput volume at our ethanol storage assets, which was approximately 2% more than the second quarter of last year. Distributable cash flow was $15.3 million, which was basically the same as the prior year. Maintenance CapEx was $58,000 in the second quarter and the partnership's distribution of $0.45 per unit results in a coverage ratio of 1.05 for the second quarter alone.

On a last 12-month basis, adjusted EBITDA was $70.1 million. Distributable cash flow was $65.5 million and declared distributions were $56.5 million, resulting in a 1.16 on coverage ratio. Our coverage ratio remains above our target of 1.1 on an LTM basis.

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

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Thanks, Jerry. So we've seen some improvement in the last half margin structure over the last 20 days, we're approximately 30% hedged and locked for the third quarter and margins are trending a bit better. We expect a stronger third and fourth quarter based on current markets and segment performances versus Q2. So what does that mean specifically? We will have to see where margins go from here, but total EBITDA using a forward ethanol margin curve is already better in each of the next 2 quarters than the $24 million reported this quarter with Q4 potentially being the strongest quarter of the full year. Again, we need to improve bottom line performance but as margins expand from these levels, we will start to take risk off the table.

Finally, when you compare year-over-year fundamentals, last year at this time, we had 20.4 million barrels in inventory with days of demand at 19.9. And this year, we have 21.5 with 19.6 days of demand with similar production levels. Consolidated cross was almost $0.10 higher last year with similar underlying market statistics, which is why we are seeing very tight physical markets in some areas. Is this a leading indicator of stronger markets, not sure, but at least, it looks like the weakest margins are behind us for now, notwithstanding the mother of (inaudible) crops weather or another macro factor. Exports continue to be strong and in line with our expectations. The industry will have exported close to 700 million gallons for the first 6 months of the year when June exports are reported later.

Green Plains exports for that same period were approximately 103 million gallons or about 15% of the expected industry exports. Gasoline demand is still about 2.3% behind 2016 for the first 6 months of 2017, but ethanol blended is actually up 1.6% year-over-year, with the ethanol blend and the gasoline supply running at 9.9%, up over the 9.5% in 2016 year-to-date.

E15 station expansion now has over 900 locations in 29 states and growing, and we believe this will help demand over the next couple of years, absorb some industry capacity creep that we have experienced year after year. We're putting more cattle on our feedlots as we ended Q2 with an average of 89,000 company-owned cattle on feed, which is up from 66,000 at the end of March. Customer cattle will decline and we will continue to increase our own cattle placements in the 3 recently acquired feedlots.

Fleischmann's Vinegar had a solid quarter, that was driven by higher volumes of white distilled, apple cider and other varietals. We invested -- we are investing an additional $12 million in the business to increase production, focused on apple cider and antimicrobials. The health and wellness trends we have outlined in the past continue to help drive the results for this segment and once completed, the new production is already committed, which should drive earnings growth in the future. We continue to look at using this platform not only to gain share in current markets but to look at acquisitions and expansions in adjacent markets as well.

Our Jefferson import-export terminal is coming along nicely. Our current date for opening the project for the business is October 1 and we expect to move quickly to run not only export volume but also domestic volume through there as well.

The terminal in Little Rock is progressing well and should be in service towards the end of the first quarter of 2018. With the projects we have opened along with the recently completed acquisition, balance sheet management is a key focus. As Jerry indicated, our cash balance remains strong and we generated positive cash flow from operations for this quarter even in the down market, which shows the resilience of our ability to generate cash. We utilized this cash flow investing over $50 million in growth capital, $8.5 million in cash to effectively repurchase shares in conjunction with the convertible notes exchanged to reduce our debt balance and pay $4.7 million in dividends. Over the next few quarters, we will make investments in cattle working capital, which has proven to be the best return on capital across the whole company besides organic production upgrades.

As Jerry mentioned, we are also working on a new term loan B to simplify our capital structure, and provide us with more flexibly as we grow the company.

In closing, we are disappointed that our underlying asset and enterprise values are not adequately reflected in our share price, but we will continue to focus on this whether it's through nonethanol acquisitions, co-location of other processing assets and the deployment of our other value-added process technologies. Our process of valuing our markets and even our own assets is ongoing and constant. We work everyday on closing that valuations gap. We know margins will be cyclical and have positioned our platform to take advantage of the changes in that cycle. We have scale in all of our market segments.

Thanks for coming on the call and I'll ask Savannah to start the question-and-answer session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will take our first question from Heather Jones from Vertical Group.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

A quick clarification question. As far as your York facility, had that been running at the 55 million gallons fuel ethanol, and now it's completely converted to bev grade?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Between kind of 45 and 50 in the first half of the year, and we are now actually in B grade, not in beverage grade, B grade is industrial, going into the industrial markets. That is where though we are focusing the next investment in our platform to move that into more beverage grade production, and that engineering is taking place as we speak.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

And so that's -- the Hopewell is a temporary downtime, but this sounds like this is a permanent transition?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Yes. Well, we hope so. We think -- as long as we continue to see B grade demand and we've seen it increase, we will maintain that as an industrial plant and the Hopewell plant is down for upgrades and could be down a couple of more months at least.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Okay, and not to belabor this point, but and it wasn't just you, it's just the whole industry and honestly, a lot of the analysts, but clearly got industry supply wrong this year. So was wondering if you -- now that you were 7 months through the year, in retrospect, what do you think you missed, was it fermenters or whatever, and based upon those learnings, what is your best estimate of what we should expect in 2018 as far as creep? I mean, we have new, some green corn, Greenfields, Brownfield expansion, but as far as creep, like what is your best estimate now for '18?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

So internally here at Green Plains, I think we will limit our creep to a very low percentage. So we won't have much impact on the industry in 2018 and in fact, we're not investing much now into capacity upgrades. In fact, our CapEx will go down almost to 0 on that between now and the end of the year. So and we look at ourselves, our creep will be low. I think, what we saw on year-to-date was, industry was up about 4% and blending was only up about 2%. What we're seeing in the third quarter now is that what we think in the third quarter and how we'll finish is production will be up 1.7% quarter-over-quarter, year-over-year, and blending will be up about 1.7%. So as we get towards the end of the year, and in August actually, what we're seeing specifically is that, blending has actually increased over production year-over-year so it's not really reflected in the crush. When we get into 2018, I mean, I think we'll still have the normal 1% to 3% creep next year, but we won't be participating in that, that's why I'm saying I'm a little bit on the lower end. And then, we think blending will continue to increase 1% to 2% a year as well. So in balance, notwithstanding, if some other project comes on or if yields improve or the crop's better and yields improve, hard to say what will happen, but we thought this year, middle of this year, it was where we would see demand surpass supply, but creep happened too fast this year. And obviously, we are part of that. But the industry also has found ways to get more ethanol out of their plants as well. And so we're going to watch it closely, but we need to continue to find more demand for our product, so this is probably not going to go away.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

So well, that's the essence of my question. It's just -- like in some industries, they track, they'll check with manufacturer and who's ordering new equipment, et cetera, and watching how was it that creep exceeded everyone's estimate this year, and does -- based upon what you've learned there, do you think you have better visibility in that it will be slower in '18 than it was this year?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

I think, when you go back and look at when we started looking at capacity upgrades, we announced our large one that we announced across our platform at a very low cost. We don't have those low cost increases anymore, so we're not going to invest capital at these new higher costs to get -- to go after gallons. I think after that, it was almost like we set a model for, that others used to increase their capacity as well. I mean, we have a very healthy industry from a balance sheet perspective, that has the ability to go after that next gallon. And so looking forward, I think, it's the discipline, both on the production side and the demand side that have to come in line. I mean, if the industry continues to push much harder than we're at today, we'll just have some excess ethanol we have to market in the world. I think the most intriguing thing that we're seeing is that, I think margins would be better this year. If the corn markets settle back down, because if you really look at it -- when you look at days of demand today that we have in inventory, and you go back and look at history, the margin structure with these days of demand, we are probably $0.10 too low as an industry right now. And it's a bit undisciplined out there, in terms of pushing production, but I think, overall, demand and supply are starting to come a bit into balance, but the market doesn't like these big 1 0 3 0 numbers, 1 0 4 0, for no other reason they don't like, optically, they don't like the number, but it's not like there's significant excess supplies on the market today. It's just, we just need the market to settle back, really on the corn side of it.

Operator

And we will take our next question from Adam Samuelson from Goldman Sachs.

Adam L. Samuelson - *Goldman Sachs Group Inc., Research Division - Lead Analyst*

Maybe first on the demand side and on exports as we think about kind of outlets really excess, these new products. You talk about the export book, as you see it today, Todd, through the back half of the year, first half has been very robust, but some signs that Brazil might be incenting their producers to push more ethanol again. And obviously, there's been talk about the tariffs there, that haven't happened yet, but maybe a little bit of a view on the export picture, and then as you look into '18, the opportunities in Mexico that might be emerging.

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Yes. So there's obviously, the first half was strong. We see Brazil slowing down in the second half, but that's been in our numbers. So the second half for Brazil in our numbers. We have more like 100 up to 120, versus -- and a full year around 400. And so we already have them reducing. We think Canada maintains a good pace. India continues to take their monthly and they reengage, they didn't take anything in April and May, and go right down the list. And so, yes, we believe this passage of blending in Mexico outside of the 3 large areas, brings in a couple hundred million gallons of additional demand. In addition, we are still open on the ARM and Northern Brazil and we still think gallons will flow into there. They are structurally still short gallons into that market. And when the ARM is opened, they will take it into that market as well. It looks like India, and we're hearing may tender again, start to tender for ethanol into their market. So overall, I mean look, we don't know exactly how and what markets will grow or go down for 2018 except to say that where we're at, relative value of octane and fuel around the world. That this is a product that continue -- we continue to see new markets open up and new demand come. So we think we'll end the year at 1.2 billion to 1.3 billion gallons of exports and potentially next year, we'll continue to see that grow.

Adam L. Samuelson - *Goldman Sachs Group Inc., Research Division - Lead Analyst*

Got it. That's helpful. And then maybe, just a little bit on the third quarter margin dynamic. Are you -- you said 30% of the quarters has to have been, where a 1/3 of the way done the quarter now. So is it fair to say, a, that you still have most of your August and September books still to price? And second, the margin profile, you talked about a little bit better than the second quarter, but $0.10 or so cents down from last year. So are we talking about spot margins today that are still hanging in the kind of upper single-digit range?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Yes. I would say, as of today, with the corn market, we have spot margins a little higher than that. July was recovering, but in general, if you look at the quarter, I think right now on paper, we are looking on average in that just above $0.10 to $0.11 a gallon right now and improving as we see today, we'll see what EIA brings. So we are starting to see those numbers improve, same for the fourth quarter across the platform. So starting to get back into double-digit, all inclusive of corn oil and the consolidated. And starting to potentially accelerate from there. But I said that in the last conference call, and the 2 weeks prior -- after the last conference call, we went down $0.15 a gallon because of these builds and inventories that got people all worried. But if you really look at August, we think August average production will be about $10.40 a day versus $10.25 last year and average demand will be $9.60 a day. Exports will make up the rest. So in the month of August, and coming into shutdowns, we actually believe demand will outpace supply in the month of August and possibly in the month of September, as we kind of go into full shutdown mode as an industry. So it looks like we're stable from here. Last half looks better than the first half as we speak, but we still have some work to do. But if we see some any more expansion from these levels, we'll start to lock in, probably more in Q -- Q4 than Q3, but we will start to lock in margins.

Operator

And we will take our next question from Sandy Klugman from Vertical Research Partners.

Sandy H. Klugman - *Vertical Research Partners, LLC - VP*

A follow-up question on Mexico. There'd been some suggestions that the transition to a 10% blend rate could be challenged by storage limitations as well as concerns from retailers regarding tank corrosion. Be curious to hear your thoughts on these issues. And then as a follow-up, how much capacity would you expect to be built out in Mexico to potentially meet the new demand?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

I'll let Steve comment on that, he's been working on that and spent plenty of time in Mexico.

Carl S. Bleyl - *Green Plains Inc. - EVP of Ethanol Marketing*

We're seeing a lot of build out on terminals, receiving terminals, as many as 18 around the country, in the metropolitan areas and outside of it. It's obviously a challenge, because MTBE wants to stay in the mix and the gasoline specification right now is still built for MTBE, but we don't see the corrosion issues that you mentioned. We have people that are actually working. You have some of the retail chains that are looking at the valuations and talking about the E10 blend and trying to push the government towards an E10 blend outside, obviously outside of the metro areas right now, which is still a fairly large, robust volumes and we're in that 250 million, 300 million-gallon range.

Sandy H. Klugman - *Vertical Research Partners, LLC - VP*

That's really helpful. And then, on the 1.2 million to 1.3 million gallon export projection, does that include any volumes to China and more broadly, how do you think about the longer-term opportunity in that market?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Yes. It doesn't include any volume to China this year, we have them in for 0, and that's up to them. I mean, they can use it, but we don't see them returning in any kind of robust fashion anytime soon. It's nice to have when we have it, but we don't expect it.

Operator

And we will take our next question from Brett Wong from Piper Jaffray.

Brett William Sprinces Wong - *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

First, I just wanted to ask maybe a high level question just around crop and what you're seeing, of course, some expectations that yields will be down after the record year last year, as you mentioned forecasts are a little bit more favorable here specifically on the temperature side. So I just wanted to know your thoughts about around where the crop may end up and how that sets us up?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Yes. We started -- we're just starting our crop tours at the company. Last year, we did an extensive crop tour around all of our sites and beyond, and our team was within about a bushel an acre from where the final number was. This year right now, we still think 1 -- mid-160s is still attainable. I think we're -- we are starting to get some bushels back here, basis this Midwestern weather calming down a little bit and a little bit extra rain in the forecast. I don't think anybody knows, because of the advanced genetics that are in these crops, what's going to happen through the next month or so. But it looks like the conditions are improving in Minnesota and the other areas. Iowa is finally, we think adjusted down to where I think the market -- where I think the producers think it's going to be, but we do see some improvement there as well. So we're kind of sticking in that little bit over 165 yield right now, which is -- still gives us carry out of $2 billion plus potentially, with a lower export number. There's plenty of corn around. We have no issue buying any corn. We're actually filling our piles right now with old crop corn, to carry into new crop. So we should be potentially full coming into new crop, with the old crop stocks. The farmer is starting to reengage as the weather is turning a bit here, and I think we're starting to see that reflected in the overall pricing structure of the market.

Brett William Sprinces Wong - *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

And just on that, can you talk a little bit about the basis in your footprint. Obviously we've seen a lot lower cash prices than the board, and so just some comments would be helpful there.

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Yes. So we're -- what we're seeing across the board in every market that we operate in is a lower structural corn basis this year, whether you're in Nebraska, in the 30s under or 20s -- mid- to low 20s under. Iowa, middle of 30s. Minnesota, mid- to low 50s. Even Indiana is starting to give us the incentive to actually take new crop corn into old, or old crop corn into new crop. And then down the mid-South crop is excellent. And so, if we start out with an excellent MidSouth crop, coming into, maybe some of the northern areas, I think the market set up for a continued cheaper basis level. It just -- with exports and the competition from Brazil, I think, the lows are in on the basis, but I don't expect a big basis rally from here. But I don't believe that we'll see another gap down on basis levels, unless the farmer truly engages at the end of this crop year, and puts a lot of corn back into the market, which is what we're being incented to do against new crop values at all, almost all of our locations, is to actually fill our storage now with old crop corn against that $0.14 carry into new crop, and we are buying old crop corn cheaper than we can buy new crop corn today, which will help the Q4 crush as we carry it in, we think. A bit more technical, probably than you wanted to hear, but at it was...

Brett William Sprinces Wong - *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

No, that's exactly what I was hoping to year. So that's really helpful, Todd, thanks. And then, and just one last one for me. As you guys are talking about some fuel grade reduction in your footprint. Obviously, we heard this morning from one of your competitors, that they are also trying to focus on producing more actual beverage grade other than just industrial. Are you seeing that come from anybody else and as the industry tries to tighten up supply?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

No, we haven't heard many others talk about that. I mean, for us, the B grade, they always, we always had the capability in York, and we just reengaged in those markets and to go get share after we purchased those plants. And then, when you look at overall, from a beverage grade standpoint, we do have our own internal demand, with the Fleischmann's Vinegar acquisition that we've made, we haven't gone after that, but there is another margin to go after, and we're engaged to go after that. But in general, no, I don't think it's a big widespread initiative to take volume and convert -- alcohol volume converted into either B-grade or beverage grade, because the demand is still finite. It's not necessarily growing. So you have to be careful on oversupply because it could happen very quickly in those markets. I don't think anybody's taken -- and it costs a lot of money. If you want to convert, even York, into a full beverage grade facility, it's a $15 million to $20 million CapEx just to do that on a small plant. So it's a big investment to make with a finite amount of demand.

Operator

And we will take our next question from Farha Aslam from Stephens Incorporated.

Farha Aslam - *Stephens Inc., Research Division - MD*

Recently we've had a court case that the EPA was not allowed to lower blend levels, and that sends RIN values up. Has that affected blending of ethanol? And what impact do you anticipate that court ruling to have on the ethanol market?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Well, every time RIN values go up obviously, if you're a discretionary blender, you want to go after those gallons. And we are seeing the discretionary guys continue to push harder. Steve, do you want to comment on that?

Carl S. Bleyl - *Green Plains Inc. - EVP of Ethanol Marketing*

Well, it's obviously, the E15 campaign, it helps them quite a bit, with the higher price RIN, but, yes, that's all we've really seen on it.

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Yes. So here, if you were thinking about E15, you definitely have an incentive to after that additional RIN, in addition to the blend value that you're getting. In terms of the court case, look, I think, there's ways that, we saw that yesterday, that the EPA can adjust other areas of the RFS to see if they can make up for that additional need around RINS. Taking it from what we thought was 300 million to 400 million gallons of RINs possibly down to 100 million gallons using the (inaudible) waivers and things like that. So I think this is yet to be determined. And even -- don't forget, you can also carry forward your obligations as well, and go to the next year. So I think in general, the market's priced as it is. And if we can get to full E15 year-round, if we can get some traction on that, that is the thing that will probably cut this RIN market down hard, from a pricing standpoint, this year on E15 and more and more RIN generation across the industry that can be retired. So we're working hard on that initiative. But these always take longer than you want them to.

Farha Aslam - *Stephens Inc., Research Division - MD*

And along the lines of an E15 full year, the RVP waiver. What's the -- an update? Do you think you'll get it in time for next kind of key driving season?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Well I mean, basically, we open up to, across the U.S. blending back on September 15. So we got through the summer. Demand, and as we said in August, should outpace supply. In September, when we get into shutdown season and we get to year round, any market can use E15. I think, that for this year at least, we missed the window. We'll continue to work. It can come 2 ways. It can come legislatively, or it can come through the EPA. But you don't want to lose it in a lawsuit if it comes through the EPA. So we're still pushing the legislative process, but it's not probably the highest priority of anybody today in Washington as to give us an RVP waive unless we get attached to some other bill. So we're working hard in it, but it's challenging when not so much else is happening there.

Operator

And we will take our next question from Ken Zaslow from BMO Capital Market.

Omar J. Mejias - *BMO Capital Markets Equity Research - Associate*

This is actually Omar filling in for Ken. Todd, just one big picture question with regards to 2018. We've talked about many, many puts and takes here, but as we stand today, slightly probably higher supplies than previously anticipated, but also strong exports. Mexico around 10% blends, and the incremental growth in E15 stations. What's the likelihood for the industry to return to normalized margin levels in 2018? And what are some of the main catalysts there?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Well, that's our expectation, is even we're starting to push towards at least a mid-cycle margin as we speak today. So in the spot market. So it's not like it would take very much at all. I mean, I think the emphasis of this corn price, as well as a bit of stocks build in the second quarter, just hurt the industry. And this industry has to be more disciplined in margin compression, on what they do with their own production. But in general, and we kind of look forward as Green Plains in 2018. First and foremost for us, when we look at 2018, we should have a strong food and ingredients segment, because of a full year in cattle feeding and Fleischmann's margins are improving, as well as their -- the CapEx put in place, we should see the benefit of that. So that's why we had, in there between that $60 million and $80 million of ag -- of food and ingredients, in terms of a great opportunity for Green Plains. Ag and energy should be consistent in that $30 million to $40 million range, and then if we run a full production, the Green Plains Partners as well. So then it just comes down to the ethanol crush. And so, if we continue to see gas demand strong, and I think we'll see that through, at least the next couple of months, end of the year and go into 2018, there are still 275 million cars on the road that use gasoline every day, a minimum of 275 million cars. We're confident that the fleet won't be electric next year, and if you look at kind of the last year, we were at the 5-year average, above the 5-year average, and this year, we're above the 5-year average as well on gas demand. So no time soon is ethanol going to be kicked out of anybody's fuel supply. So when you go out to '18, depending on where gas demand is, if its 1.43 again, 1.44, that's 14.4 to start with. 1.2 of exports is 15.6. Couple hundred million gallons of E15 next year is 15.8, and the industry is producing around 15.8, if you get a little capacity creep. So overall, there is no big impetus that says stocks are going to net expand over a 12-month period to any significant, unattained or unmanageable levels. But we are still dealing on a week-to-week. But overall, we thought, as we said, demand would outpace supply by now. We're seeing it in August potentially, but we haven't -- we're just right at that point where we're not drawing and we're not building net over a 12-month period, and it's just maintaining a margin structure that allows us to earn a little bit of money, keep running. But if we can get any new impetus, whether Brazil returns and Mexico or whether E15 gets a lot of traction next year at 2,000 stations instead of 900 stations or whether others start to implement it, I think overall, we should be at mid-cycle to better than mid-cycle in 2018.

Operator

And we will take our next question from Laurence Alexander from Jefferies.

Laurence Alexander - *Jefferies LLC, Research Division - VP and Equity Research Analyst*

Just a couple of questions. First of all, can you help flesh out a little bit the levers to get from the, call it, 80 to 110 range in the food and agribusiness and energy, up to the 115 nonethanol EBITDA? Even, I guess, in particular, I'm curious about the economics around the cattle form acquisition, I mean, how much of a tailwind that should be giving?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Yes. So let me pull up the chart here, and then we can walk through, perfect. So when we look at ag and energy, that consistently has been a $30 million to $40 million year business, opportunities up and opportunities down from there. So we'll just leave that at that. I think, that's consistent over the time period. Where we get the opportunity is in food and ingredients. So we -- as we have outlined in the past, we're going to have 255,000 head on feed that markets, so 2 point -- we'll turn our lots 2.1x a year. So we should market about 535,000 head of cattle next year. Our immediate margin that we go after -- if we're going to be full, our basis that we buy, or our margin that we want to buy off is between $50 and $60 a head base margin. Last year, we earned $80 to $90 a head base margin, fully hedged, no flat price risk. And so we always start out to say 535,000 heads times about $60 a head is about $30 million. And if we can get any increase, we think that cattle can be a $30 million to $50 million a year EBITDA business, if we can get another $1 to hundredweight out of our margin structurally like we did last year. So that gives us space. We think Fleischmann's makes up most of the rest of that, and so on the low end, kind of a $60 million turn and on the high end about a $80 million turn. So in terms of looking at the total platform, and Fleischmann's continues to grow business. We're focused on antimicrobials. We're focused on apple cider vinegar, and that's where we spent most of the CapEx, to go after that business. And we think that, that will remain strong using that platform, among other opportunities that we see around other areas of growth, within Fleischmann's. So when you add all that up together, this year, we should be in 2017, around in ag and energy, somewhere between $30 million and $40 million. Food and ingredients, somewhere between $45 million and $50 million. And Green Plains Partners, somewhere between kind of $70 million and $75 million of EBITDA. Altogether, and then the increases for next year. So it's a good base business. We get a little margin out of the ethanol, then it accelerates very rapidly into a significant free cash flow generator.

Laurence Alexander - *Jefferies LLC, Research Division - VP and Equity Research Analyst*

And then, given that opportunity set, what's your thinking about deploying capital in 2 areas? One, would you start looking at any opportunities outside the U.S, whether terminals or any other kind of side ventures? Or will you have a particular insight? Or, given the volatility in the ethanol industry, sort of picking off smaller plants. I think, if memory serves, some recent M&A was down around $0.85 or $0.90 a gallon, so just your perspective on those two?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Yes, so the opportunity to acquire now is low. There are -- with the last purchase we made, was about $1.11 a gallon roughly, or $1 a gallon on average over the 3 plants. There is not anything today that we're working on, actionable. There just might not be -- just because of the one quarter of down margins. Before that, you had a strong third, fourth and first quarter, strong to stable in margins, so this was a one down quarter that's improving from now. There is not a lot that anybody wants to do, in terms of selling ethanol assets. And so that's why we believe there's a big disconnect between the value of our ethanol asset to the value of the market today, because of the spread between private and public market valuations. So right now, our focus on growing the business, we will allocate capital to Fleischmann's and that platform as they need it, and that's what we did this quarter, going after more of the varietals in antimicrobials and the whole health and wellness organic, some of the organic things that we produce -- organic vinegar that we produce. Among now, focusing even on the agricultural production side, where we have a herbicide, that's the only vinegar herbicide approved for organic production in the United States. So we're looking at that. In terms of the cattle business, we have one area -- 1 plant, 1 feed area, we can expand about 12,000 heads, and we're finalizing some of that right now to increase our production there. That is just a matter of investing working capital more than it is investing a lot of CapEx. But I think there's other opportunities around growing that business. And then we'll look at other adjacent businesses that we can find that we believe that add value to our shareholders. But at this point, our focus will be on maintaining what we have, growing our free cash flow, tucking in acquisitions that are -- that we believe are accretive to our shareholders, and trying to realize the value of our full asset base. So when you look at our term loan that we're marketing right now, we have significant collateral against the $500 million term loan in the $2 billion plus collateral that we're putting forward, and it's not being reflected in our overall enterprise value today. So we're going to work on closing that gap, and we'll look at everything that we can to do that.

Operator

And we will take our next question from Craig Irwin from Roth Capital Partners.

Craig Edward Irwin - *Roth Capital Partners, LLC, Research Division - Senior Research Analyst*

Todd, I wanted to ask you a couple of questions related to the partnership. You've got some interesting assets you've been developing that are widely expected to be drop downs over the course of the next year, the Jefferson and Little Rock facilities. Can you update us on the status of these facilities. Where are they in the construction cycle? Have the capital needs changed? Have the financials or probable ratios that we should be looking at, or valuation changed and any other color you can share on these to help our understanding of their potential contribution to the partnership?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

So North Little Rock is a small terminal that we're building, it should be on in the first quarter, maybe second quarter of 2018. That's already being developed by the partnership. So there'll be no drop down needed for that, and then the full benefit of that EBITDA will, in cash full, come into partnership in 2018. In terms of Jefferson, we're in the final stages of construction. We do expect an Oct 1 start date. That's always minus or minus couple of weeks, but we do expect an Oct 1 start date. We think that, not only we will be exporting ethanol out of there, but we also are going to -- there's also domestic ethanol that we can go after as well through our own platform. So we're excited about that. That has not been offered to the MLP to Green Plains Partners yet, we're still in contracting phases with third parties and finalizing some of those contracts as we speak. Once that's all done, within 6 months, it's our obligation to offer that through the partnership, based on the contract, and we will do that. So everything is on track, no capital need -- extra capital needs than we expected. The Jefferson terminal is on budget and on-time for what we had said, what we were going to do there. So we are continuing to look at external projects, in terms of terminals and terminal acquisitions, which we haven't talked about yet on this call, but we are in several different processes looking at potential terminals that we can buy to help accelerate the growth of Green Plains Partners, we're heavily focused on that, and bringing in other assets outside of ethanol production. And as I said, we're evaluating several potential assets as we speak, and we'll keep you updated on that. Obviously, we don't know what will come to fruition, but our goal is to continue to drive value in Green Plains Partners, mainly or number 1, because our Green Plains Inc. shareholders own a piece of it. But number 2, it's because what we said to the market in terms our growth objectives, both internal and external. So there is not, and we believe it is -- could be one of the greatest or greater creation or value creators for Green Plains shareholders, as well as Green Plains, Inc. shareholders than we've had in the past several years.

Craig Edward Irwin - *Roth Capital Partners, LLC, Research Division - Senior Research Analyst*

My second question is about international markets, particularly Canada. So you mentioned Mexico, I guess, everybody saw the 10% ethanol being proved there. But I understand there's a process in Canada to move to a 10% blend rate over time. Do you have an update for us? Do you think that this mix could start contributing to the growth of U.S. demand in the 2018, 2019 timeframe? How do you discount the probability of this 10% blend rate, moving forward in Canada?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Go ahead.

Carl S. Bleyl - *Green Plains Inc. - EVP of Ethanol Marketing*

Well, I think you saw in 2016, when they were running more of a 5% blend rate in certain provinces there. You're seeing a lot of it now, run at 10%, but they do have a new standard coming in, where it'll be a mandated 10%, but we're running fairly close to that right now into Canada at 10%.

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

I think that what you watch is when ethanol and gasoline are at parity. Or ethanol is plus or minus a little bit, or at a discount, you really start to see Canada accelerate their blending and they're very sensitive to price. So if we spent a lot of time over the price of gas, Canada can flex down, but in general, I think we're fully into their fuel supply.

Carl S. Bleyl - *Green Plains Inc. - EVP of Ethanol Marketing*

Correct. But their sensitivity is what sometimes we felt in 2016 to that, which hasn't dropped down.

Operator

And we will take our next question from Selman Akyol from Stifel.

Selman Akyol - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

I appreciate that Little Rock is small, but I'm just curious how much capital is devoted to that this quarter?

Jerry L. Peters - *Green Plains Inc. - CFO*

This quarter? It was probably, I mean the total capital before that, is about $3.5 million, is our share of it. And so this quarter, I think it was probably less than $1 million this quarter.

Selman Akyol - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Got you. And then, you outlined sort of next year non-ethanol, $165 million of EBITDA, and you said Green Plains or Partners would contribute $75 million of that. I was kind of curious, what is behind your assumptions on that? And then, as well as in terms of Jefferson term loans, is that included in there, or not?

Jerry L. Peters - *Green Plains Inc. - CFO*

Yes. We do not include drop downs until they occur in our outlook numbers. So we would include our base business in terms of ethanol throughput...

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Which is kind of a 75 to 80 number, I don't it's fair just to say 75. Or 75 to 85, I don't think it's just fair to say 75, so I was using that as an absolute, but that's not the way that we're approaching it, just so you know.

Jerry L. Peters - *Green Plains Inc. - CFO*

So I mean, just using a more normalized throughput level going forward on our base business, then a small contribution from the Little Rock terminal, no acquisitions, no drop downs included in those numbers.

Selman Akyol - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Got you, and then, the last one. Just in terms of -- and I appreciate your commentary, you're still contracting up Jefferson terminal. But when you, expect to offer to partnership, what kind of utilization rate do you think you would have or contracting rate?

Jerry L. Peters - *Green Plains Inc. - CFO*

Yes. I think, the economics that we're looking at were based on between 10 and 12 trains per month that's going through that terminal.

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Yes, so 12 trains, that's 3 million gallons a train, its 36 million to 40 million gallons a month roughly, going through that terminal. That's both domestic and export.

Jerry L. Peters - *Green Plains Inc. - CFO*

That's correct.

Operator

And we will take our next question from Pavel Molchanov from Raymond James.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

It sounds like you're pulling all the weight of rebalancing the market, or at least you did in June. I'm curious about why you think none of the other top-tier producers followed suit in joining you in some production discipline?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

We don't talk to them about it. So obviously, we have to make our own decisions, and that's why we did not announce to the market what we were doing, we just have to, when we slow down. I mean, it's certainly, they make their own decisions based on what they see internally. We believe somebody had to do it. Somebody had to exert leadership in this industry to do it. And if we did not slow down, we would be in a much worse margin situation today. So while certainly not great for the quarter, I think, it invested in the last half of the year to get us to where we are at today. Obviously, people have to make their own decisions based on their own factors and -- but it was, when we slow down, I mean obviously, we don't offer ethanol, we don't offer PDGs or corn base as slips. I mean, it wasn't hard to see the Green Plains slowdown last quarter, if you were watching closely in the daily markets. But overall, I think, the industry still remains a bit undisciplined on -- when margins are compressed, because they have strong balance sheets and they can withstand it, and they just keep running and we decided, based on our scale, and we always said we would, if margins get to a level that we think our impact could be -- could certainly have a positive impact for our shareholders, then we're going to -- we'll make the adjustments needed. But it would, how others make their own decisions is not anything we can really discuss with them, obviously.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

Okay, let me ask another, kind of slightly broader question about the industry landscape. What do you think is the likelihood that, given the rather weak margin environment currently, will have other smaller producers run into trouble, perhaps get into an insolvency type situation the way it happened, for example, in 2012, 2013 timeframe?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

I think there's extremely low risk of widespread insolvencies in this industry anytime in the future. And it's mainly driven by the fact that -- even if you look at our own debt structure, we're going out on a $500 million term loan, of which there's only about, in that term loan, about how much of that's from an ethanol perspective? In terms of, our cents per gallon on ethanol debt is so low, it's been the lowest it has ever in our history, and we have such good collateral against that, those loans, that I think, any chance of any widespread insolvencies in this industry, because they all have the same thing. If you look at a farmer-owned plant, across the United States, they basically have 0 debt, is that correct, Steve? If you look at the large producers like a, like some of the biggest ones, they have 0 debt. And so when you look across this industry, chance of insolvency is low. Now, if margins stay compressed for a long time, could plants shut down? Sure. But that doesn't mean that any bank is going to own any ethanol plant anytime in the near future. It's just -- we probably moved past that in our life cycle, of that being a big issue. Now, if a plant decides they don't want to be in the business anymore, and they would sell, that's a different story than a margin structure driving insolvencies in this industry at all. Because it could be adjusted very quickly, if you think about what we did last quarter, we took 50 million gallons off the market, we were still producing a significant amount of ethanol in the month and in the quarter, but if you did that over a year's period of time, if we took our production down and we're not going to, but if you did it, that would almost drain the U.S. stock situation. That's how sensitive this market is to it. So when you got 21 million barrels of stocks, and that's about 840 million gallons, and if Green Plains did what we did last month, to do it all year, we would have now a lot of ethanol left in the United States. So it's highly sensitive to that. But I don't think the market appreciates that quite as much as we thought they would -- or they should.

Operator

And we will take our next question from Ethan Bellamy from Robert W. Baird.

Ethan Heyward Bellamy - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

A couple questions. First, on the Jefferson terminal. You mentioned, ongoing contract negotiations. Just trying to get a sense for the timing of those relative to the completion, and if there are any other gating factors on offering that to the MLP? So we can try to at least get the timing right on the drop down.

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Yes, so we're going to be contracting right through and probably past start up. I mean, I would say, that there are still others, somewhat shorter term, somewhat a longer-term, somewhat larger supply, just really depends on what we're going to be able to do there. I think, from our standpoint, when that terminal starts, a Green Plains Inc. will fully support that terminal from Day 1. We will begin to, as we're -- even as we're contracting, we are going to be shipping units into their -- to support the economics of that terminal. So we are excited about it. If we need to, we can -- we built that terminal, understanding that, Green Plains wouldn't mind taking the whole thing, but that's not what we're going to do in the market. So we believe we can ship 10 to 12 unit trains there a month within our own platform, and we will start to do that as many as we can starting in October, both domestic and export. So if contracting isn't complete by then, volume will start to go through there. Once that happens, it's kind of up to the MLP, as well as ourselves to determine what's the best time to drop this down, we would like to do it quicker than later, and we'll just have to see how, what happens through the rest of this contracting season.

Ethan Heyward Bellamy - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay, that's fair enough. On Little Rock, what's the rationale for doing the construction at GPP rather than GPRE? Is that a size of the investment thing? And then, if that's the case, is there some sort of threshold above which you don't want to spend money at the MLP, than you do at the parent?

Jerry L. Peters - *Green Plains Inc. - CFO*

Yes. It certainly was a size factor that we felt very comfortable that we could handle a $3.5 million investment with obviously, maybe a 12-month lead time, to get that to turn on to cash flow. We don't have a hard and fast dollar amount, in terms of what could be developed at the MLP, it really just -- it's a function of size as well as time to -- time to positive cash flow. So we just, we model that and we'll use Green Plains Inc. to support the larger projects, like Beaumont. Obviously, the preference would be to build at the partner's level, just simply because you have a better EBITDA multiple on a grassroot build.

Ethan Heyward Bellamy - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Got it, that's helpful. And on those MBCs. Is that, or are those MBCs sufficient alone to support that project, and can you give us any details on the sort of duration or quantity, or any other features of those?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Yes. I mean when you look at the -- first of all, for North Little Rock, all of that volume has been committed. So there's no issue there, and it does support the project and the contracting is over for there, so it happened before it even started, between the 2 partners, we will both support that project, and are both committed to. When you look at the project down in Beaumont, it was built on those assumptions that we had mentioned earlier, and right now there isn't an MBC, because we're not, obviously we're just in contracting season right now. But we believe that, the numbers that we put forward when we built it, are still very much intact and consistent with what's happening in the market today. Then, and finally, obviously for the rest of the year, with the MLP, our assets are turned on and we will go through normal maintenance season on some of our assets, but some we won't have to because of what we were able to accomplish when we went down in the month of June, we did a lot of maintenance and during that downtime, so that we can get through maintenance season with probably less than we have in the past. And so -- but in general, through the end of the year, for the MLP, we'll continue, we will run strong, almost at full volumes, starting next month. So we think that albeit, we made an MBC for the month of -- or last quarter, but we think we'll get a credit for that for the rest of the year. Is that, correct, Jerry?

Jerry L. Peters - *Green Plains Inc. - CFO*

It should be utilized very quickly.

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

So the MLP is intact for the rest of the year. And on track, in that low- to mid-70 range.

Ethan Heyward Bellamy - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Excellent. I just want to compliment you on the capital and operational discipline of shutting the plants down, we can certainly uses some of that in the broader oil and gas industry.

Operator

And we will take our last question from Heather Jones from Vertical Group.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Thanks for taking a follow-up. First one, a clarification. On food and ingredients, did you say you think it'll be $40 million or $50 million in EBITDA this year, or were you talking about normalized level?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

I missed that question. Can you repeat that again?

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

I think you said something about food and ingredients being $40 million to $50 million in EBITDA. Were you referring to '17, or were you talking about what you thought it could be in '18?

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

No, I was referring to '17. Because don't forget, it's a full year of Fleischmann's, and a very much a partial year of most of the cattle lots. Because -- now obviously, supreme was, our first lot, our first 2 lots were running full year. But you have to remember, when we purchased the cargo lots, there was all cargo cattle in there, and our return on those really doesn't start to accelerate until 2018 when we own all the cattle. We're getting paid a small fee to finish theirs out, based on the agreement that we made with them, but it's not as much of the margin as we'd be, we make feeding our own cattle. So I mean next year, we would have a full year of everything.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Okay. And a two-prong question, really quickly on DDGs. We've seen a pretty substantial improvement and the relative price to corn over the last, call it 4 to 6 weeks. So is there physical tightness developing in that the market, because you do have strong production growth in hog, et cetera. And so, are we seeing physical, more physical tightness there? And the second part of my question is, do you guys have any intention of adopting the new tech that yields a higher protein DDG? So a premium price DDG.

Jerry L. Peters - *Green Plains Inc. - CFO*

So yes, so over the last 4 to 6 weeks, we have seen the increase in replacement values versus corn on distiller's grains. Mainly in the West, a little less in the East, because we're still working through the toxin problems that we've had, and that market remains at discount. But we've seen a 10% to 12% percentage point replacement improvement in the West. Some of that is because the per unit value of protein on DDGs is so compelling, and besides the cattle feeding or the animal feeding margins that there are, our replacement protein value is very compelling, and also don't forget, a bit of weather health in terms of dryness in areas where cattle would be MP'd and other animals. And so we've seen some of that also helped recently. And so, and then the last thing that probably helped was also the fact that when we turned down for -- 50 million gallons of production, that's a lot of DDGs that the market is expecting as well. And so, I would say, again, besides helping the ethanol margin in terms of stabilizing with our production decrease, we probably had some impact as well on DDG pricing. With regard to next-generation or advanced distillers production around, going after that higher protein, using technology that's out there, we are evaluating that as we speak. There are several technologies that are still kind of serial number 1-ish type technologies, but they do work. And so the real question is, how quickly and how long would it take to adopt this new technology to upgrade a portion of your distillers grade grain to a higher protein? And so we're evaluating that now. If that were to happen, we believe the economics are extremely favorable to any -- to an ethanol plant that does it, but the CapEx is not cheap either. So you have to evaluate where, when and how you want to do it. But I would say, that is a technology that is being very close to commercialization, and we are watching very closely. We would be of that one, a potential early adopter, where we would start to allocate some of our platform. We believe that the higher protein would have a place competing against high-protein soy meal, as well as going all the way into corn gluten meals, which got to have -- first, you got to have a balance sheet to do it, and you've got to have the platform to do it. But we are evaluating that, and we believe that, that is a something that will come in this industry, it's just a matter of time, but it will change the margin profile significantly for the industry going forward, where you potentially are running these plants for protein, and potentially less so for ethanol, which will be an extremely interesting dynamic, if it's proven out. But we believe that over time, this technology will prove itself out. But it's not going to it will not convert all of the DDGs in an ethanol plant, it will only convert a percentage of them, and it takes a significant capital investment to do that, but the payback could be pretty good.

Operator

And that concludes today's question-and-answer session. Todd, at this time, I will turn the conference back over to you for any additional or closing remarks.

Todd A. Becker - *Green Plains Inc. - CEO, President and Director*

Thanks, and thanks for everybody for coming on the call. While not satisfied with our Q3 -- Q2 results, we feel like the discipline that this company has exhibited in the market and doing the things that we needed to do as a bigger, longer-term investment in the forward margin curve, and we believe that the last half, as we said, certainly better than the first half, and sequentially third quarter and fourth quarter will be better than the second quarter. The margins certainly have been under pressure, but are recovering from the lows. Our production levels are returning back to normal, which is obviously, something for the MLP investors and Green Plains Partners investors understand that we are fully committed to meeting our obligations under the contracts. Our non--- or ethanol, or segments outside of ethanol production are all performing well. We expect a strong finish in our food ingredient business, as well as ag and energy to start coming back and realizing the margins that were booked. And overall, we're optimistic about the future. We believe we're in a great position from a balance sheet. Liquidity is very high. In fact, some of the highest we've had in years and we think we're well-positioned now to capitalize on this margin expansion and potential growth in all of our platforms. So thanks for coming on, and we appreciate your support. We'll talk to you next quarter.

Operator

And this concludes today's conference. Thank you for your participation. And you may now disconnect.