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GPRE - Q2 2016 Green Plains Inc and Green Plains Partners LP Earnings Call

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## PRESENTATION

**Operator**

Good day, everyone, and welcome to the Green Plains Inc. and Green Plains Partners LP second-quarter results conference call. Today's call is being recorded.

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

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

Thanks, Lynette. Welcome to the Green Plains Inc. and Green Plains Partners second-quarter 2016 earnings call. Participants on the call today are Todd Becker, President and CEO; Jerry Peters, our 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 and other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in yesterday's earnings press releases and the comments made during this conference call and in the risk factors sections of our 10-Ks and Form 10-Qs and other reports and filings with the SEC.

You may also refer to page 2 of the website presentation for information about factors that could cause different outcomes. Any reported returns of Green Plains Asset Management are not intended as an offering or solicitation and past performance is not indicative of future returns. 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 Becker** - *Green Plains Inc. - President & CEO*

Thanks, Jim, and good morning everyone thank you for joining us today. We reported net income of $8.2 million, or $0.21 a share. We also reported EBITDA of $47.7 billion for the second quarter which was our best quarterly performance since 2014.

Obviously, we have a lot more gallons today but that speaks to how the law of large numbers can bring big gains from small increases in the crush margin. Remember, our acquisition costs of more gallons have been very opportunistic over the last couple of years.

As we had indicated on our last earning call we did see a bounceback in or marketing and distribution segment's operating income. The higher operating income related to the timing of the forward business that was fully hedged during the first quarter in our corn oil, natural gas and distillers merchants business. And the segment is on track to be in the range of $25 million to $30 million of operating income for fiscal 2016. In addition, Green Plains Asset Management contributed to the quarter with a 5.18% return on assets under management.

Our agribusiness segment turned in its best operating quarterly performance since 2012 mainly driven by our cattle business. As the industry sees more feeder cattle availability feeding margins have expanded.

While last year was more of a breakeven environment for us, this year has seen it move back towards historic profitability levels for this yard than what we expected when we made this acquisition. Most interesting about this business is the lower volatility around the crush and the ability to lock forward margins six months or so in advance.

We continue to work on improving our operating cost per head and increasing the average daily gain per head at the feedlot. In fact, we've been averaging over 70,000 head under feed as we have changed the square footage per head to expand the lot's capabilities. We are exploring a 10% to 15% organic expansion that comes at a very minimal cost overall for that lot and we expect good performance for the next several quarters in our cattle division.

The partnership segment, which is our ownership in Green Plains Partners, turned in its best quarterly performance since it went public in June 2015. Green Plains Partners generated $16 million of adjusted EBITDA with a distributable cash flow of $15.4 million driven by approximately 275,000,000 gallons of ethanol storage and throughput volume during the second quarter. For the third consecutive quarter, we increased the quarterly cash distribution by raising it by $0.005 from the previous quarter to $0.41 per share and the coverage ratio for the quarter is the strongest we have reported at 1.16 times.

Keep in mind, we were only increasing the last several quarters by $0.0025, so this increase is double the amount we had previously reported. Hopefully this illustrates our optimism for the future of this business and I will talk further on the growth and drop-down opportunities later in the call.

The consolidated ethanol crush margin, which again is operating income before depreciation and amortization from the ethanol production segment including corn oil plus intercompany fees such as Green Plains Partners storage and transportation fees, was $45.5 million, or $0.17 per gallon for the quarter. We have broken that out separately for you in the press release or you can see how we calculate this number.

During the quarter we produced almost 275 million gallons of ethanol, 734,000 tons of distillers grains and 64.5 million pounds of corn oil. And we reported a yield of 2.87 gallons of ethanol per bushel of corn, which is one of our highest on record. The Hopewell, Virginia plant did begin producing corn oil at the end of the second quarter and the plant generally overall is performing to our expectations.

Export sales accounted for 13.1% of the Company's ethanol production for the second quarter. While this is down from exports in Q1 it is in line what we expected based on the seasonality of some international markets. We also exported 16% of our distillers grains and an impressive 72% of all of our corn oil produced was shipped overseas.

We witnessed a solid turnaround in the ethanol margin environment during the second quarter. Gasoline and ethanol demand remains strong, running 3% higher year over year in the US. And ethanol exports for the first five months the year are the highest on record for that time period. The turnaround actually started about midway through the quarter which is what allowed the expansion in the margins to take place.

As daily industry production run rates have averaged approximately 1 million barrels per day over the last eight weeks the days of demand continue to remain in a good range for the industry. As it appears to service the higher US export demand a higher amount of inventory is needed.

Visibly the reason break in crude oil is pulling all energy products down. But that doesn't affect the fact that US ethanol remains the cheapest and best source of octane on the planet. And with the current spread between sugar and corn prices we are even starting to see Brazil reengage with recent purchases of US ethanol.

As I said, days of demand have continued to remain steady through the quarter and last week we finally broke through 20 days with a draw that was reported by EIA which is totally ignored by the market. Yes, the industry is producing 1 million barrels per day but the demand is clearing the supply and nobody is taking notice. We expect further draws over the next six to eight weeks as export demand kicks in again, so while margins have been pressured as of late eventually this will have to rationalize itself.

Our CRM program, customer relationship management program, continues to be effective for us. For the first full quarter of having the initiative in place versus last quarter when we reported a partial quarter we were able to purchase 67% of our grain direct from producers. There will be times when a producer disengages because of significant downward price pressure on corn but we feel the program still in its early stages has been a great success. All of our employees who have had a hand in developing and launching the CRM have done an excellent job in creating this tool that is a significant enabler for our grain procurement and trade.

Now I'd like to turn the call over to Jerry to review both Green Plains Inc. and Green Plains Partners financial performance. Then I will come back to discuss further our strategy going forward.

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

Good morning, everyone. Before I get into the numbers I wanted to highlight for you the fact that we added and modified some of our disclosures in the earnings release yesterday. We moved all of our key operating data into a single table to simplify our release for you.

In addition, as Todd mentioned, you will find a consolidated crush margin table that provides more visibility on that calculation. Finally, yet importantly, we included an expanded balance sheet and condensed cash flow statement in the release.

Now onto our results. For Green Plains Inc. consolidated revenues were $888 million in the second quarter which was up $145 million, or 19% from a year ago driven by higher volumes of products sold. Volumes of ethanol sold for the quarter were up nearly 18% to 356 million gallons while the average realized price per gallon was 2.8% higher than last year's second quarter.

Our utilization rate for our ethanol production assets was approximately 90% for the second quarter of 2016, which was actually slightly lower than a year ago. In this margin environment we expect to see utilization rates climb into the low to mid 90% level for the rest of 2060. That should benefit the third and fourth quarters for both Green Plains and for the partnership.

Our consolidated operating income for the quarter was $27.4 million versus $24.4 million year ago, primarily because of better performance in our agribusiness and our marketing and distribution segments. Agribusiness results benefited from stronger cattle margins realized and increased volumes through the lot during the second quarter of 2016. The marketing and distribution segment results were driven mainly by corn oil and natural gas trading in line with statements about these business lines in the first quarter.

Earnings before interest, income taxes, depreciation and amortization or EBITDA was up 20% over last year's second quarter at $47.7 million for 2016 quarter compared to $39.7 million last year. We ended the second quarter with total cash of $406 million. Total capital expenditures in the second quarter were $10.7 million.

Our estimated full-year growth capital expenditure levels currently stands at about $50 million to $55 million including the partnership. Our total debt now stands at $731 million at the end of the second quarter. This balance includes approximately $246 million on our commodity revolvers which are secured by significant working capital investments in marketable inventories and trade receivables.

Our reported leverage ratio of 4.4 times term debt to last 12 months EBITDA has increased over a year ago due to the lower margin environment we have been operating in. I would point out using normalized midcycle margins, our leverage ratio has remained at about 2.3 to 2.4 times over the past few years. We believe this is a conservative capital structure for our business. Our balance sheet remains strong and well-positioned to take advantage of near-term growth opportunities.

For Green Plains Partners we reported adjusted EBITDA of $16 million, an increase of 15.1% from the first quarter of 2016 which was $13.9 million with the primary driver being 11% higher throughput volumes on our ethanol storage assets. Green Plains Partners had 274.3 million gallons of throughput volume at the storage assets which was approximately 27 million gallons more than the first quarter of 2016.

Distributable cash flow was $15.4 million or $2.1 million higher than reported in the first quarter. Maintenance CapEx increased approximately $100,000 in the second quarter compared to the first related to routine tank farm maintenance at a couple of ethanol storage facilities and terminals.

The $174,000 of maintenance CapEx for the partnership for the first half of the year is in line with our ongoing expectations for that business. The partnership's distribution coverage ratio, as Todd mentioned, is 1.16 for the second quarter and I would point out for the combined period since the IPO the full four-quarter period it's 1.06.

With that I will turn the call back over to Todd.

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**Todd Becker** - *Green Plains Inc. - President & CEO*

Thanks, Jerry. So as ethanol margins improved towards the end of the second quarter and continued a bit through July, since then the margin curve has pulled back with recent downward movement in energy prices. We came into the quarter with a little over -- third quarter with a little over 50% of our production gallons hedged for the third quarter and have about 14% of the fourth quarter hedged as of today.

We're in the spot market for about the last 100 million gallons or so of the third quarter's production. But with a high degree of volatility in the ethanol crush it's hard to give you guidance on how the quarter will close. Rewind back seven years ago as we mentioned and this 100 million gallons would have been one-third of our yearly production and now it's less than a total month. The fourth quarter does not have much visibility but the fundamentals do as we have discussed earlier in the call, and we still expect to have some good margins through the end of the year.

Looking at the second half of 2016, we expect our agribusiness, marketing and distribution and partnership segments to finish stronger than their respective first half of 2016 results. The agribusiness will continue to be positively impacted by the cattle feedlot operations and we have no plans to slow production at our ethanol plants at this point which is also positive for Green Plains Partners.

With regard to growth we continue to evaluate our options for a unit train terminal in the Little Rock area. We were hopeful that we could determine the final location in the several coming months.

The Maumelle, Arkansas site we chose was a great one but we got in the middle of a local community's fight which put this site as a bargaining chip for which we had no influence on. Local politics got in the way which just shows how shortsighted a small town can be.

We still want to build this project and there are other communities that have been very welcoming towards us. We expect to have a final location chosen shortly.

As most of you saw we did announce a joint venture partnership with Jefferson Terminals to build an import-export terminal in the port of Beaumont Texas. The $55 million Phase 1 development should be completed within nine to 12 months. The Phase 1 development will be sized to handle up to 15 unit trains per month with initial ethanol storage of 500,000 barrels configured with four to five separate tanks that will allow for storing multiple spec capital products.

Jefferson's Terminal is currently served by three Class I railroads, has blue and brown water barge capabilities. The terminal will have dual tracks, one for offloading one for staging ethanol trains, allowing more throughput through this facility on a daily basis. This project was welcomed with open arms as compared to Maumelle, Arkansas.

The Abengoa asset bid update is that there is no update. The current timing of the process is as follows. On August 18 the final bidder registration deadline is due at the bankruptcy court, August 22 the auction will take place and on the 29th the court will hold a hearing to review the winning bidders.

As we have said we are the stalking-horse bid on two of the ethanol plants and we will have to wait and see what the final result is after the August 22 auction. But we fully expect that we will be there to continue to bid on those plants. If we are the winning bid we expect to close no later than September 30 subject to regulatory approvals. When we do, if we do win the process we anticipate dropping down the storage and transportation assets to the partnership simultaneously with the closing of the plant acquisitions.

We are looking diligently for other opportunities to expand our Company, as well. Growth remains a key part of our capital allocation strategy. We continue to have a very robust business development pipeline along the whole supply chain and we will focus on adjacencies that add value to something we produce, distribute or have common customers from origination through production through distribution.

We are now in the process of finishing Phase 1 expansion gallons and the current plans have us completing all the projects by the end of 2016. And the Phase 1 project will add about 80 million gallons at a cost of approximately $0.50 a gallon across the platform.

As we noted in the earnings release we did repurchase $6 million of stock in the second quarter and we have repurchased $10 million or 515,000 shares since the program was announced in the third quarter of 2014. Approximately $90 million of the authorization remains open and we will continue to be opportunistic with that part of the strategy. As you can see, we are willing to step in and start buying more aggressively last quarter as we had good visibility on free cash flow generation.

To close, the second quarter was much improved over the first quarter as we recorded solid results across all segments of the business. The second half of the year is stronger than the first half, obviously, but there is volatility in the consolidated ethanol crush over that time period.

So that will end our discussion here. And we would like to open up the session for questions and answers. And we will ask Lynette to start that as of right now.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Adam Samuelson, Goldman Sachs.

**Adam Samuelson** - *Goldman Sachs - Analyst*

Thanks, good morning everyone. So maybe first, Todd, I just want to be clear, on your prepared remarks you talked about what you had hedged for the third quarter. And it was over 50% was hedged today or over 50% was hedged entering 3Q, I just --

**Todd Becker** - *Green Plains Inc. - President & CEO*

Entering 3Q over 50% about 50% was hedged for the third quarter when we started Q3 on July 1. Since then, obviously we have about 100 million open still gallons and we produced 285 million to 290 million gallons this quarter roughly in that range.

So we still have plenty open for the quarter. But we came into the quarter hedged and we've just been hedging on a daily basis for the rest of the quarter.

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**Adam Samuelson** - *Goldman Sachs - Analyst*

Okay. That's very helpful. Then maybe talk a little bit about that export environment as you look into 4Q.

I know this time of year can be a little bit slower. But maybe talk about some of the inquiries from Brazil, how the demand from Asia is shaping up and if you see China coming back into the market from the US for the fourth quarter?

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**Todd Becker** - *Green Plains Inc. - President & CEO*

So for the first part of the year we obviously exported about 400 million gallons for the first five months of the year. So it was a strong environment. Since then we've been slowing down a little bit during the last couple of months of which some have been reported.

We expect a strong finish for the fourth quarter. We have Brazilian interest around Philippine, India, China is nosing around. We have actually done some India business all the way through 2017 as well even in the fourth quarter of 2017.

So you can see that we have had some advantage on pricing. We are starting to price and starting to see more demand here come in for late in the third and the fourth quarter, which I think we do need to hit that 800 million to 1 billion gallon number which we still believe is attainable.

China has been was strong in the first part of the year. We haven't seen a ton of interest from them as of late but we still expect them to continue to look for some stuff but we haven't seen aggressive pricing there yet.

Overall we still expect the same type of number which we think between the domestic demand that we're seeing and the export interest that we're seeing against somewhere around 1 million barrels a day production, and don't forget we're coming into turnaround season as well, so we think those production run rates will start to come down a bit in late August and early September. So we expect draws all the way through about the third week in October where we believe that we will see inventories get down into the 18 million to 19 million barrel range, but obviously until then we have some work to do.

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**Adam Samuelson** - *Goldman Sachs - Analyst*

Maybe finally, maybe I missed it, I apologize, can you talk about the CapEx outlook for this year with all the projects that you've got going on, where the full year is going to shake out and at the end of 2016 what your capacity would be as we look into next year?

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

Adam, this is Jerry. The CapEx guidance that we talked about that this year is we expect to be in the $50 million to $55 million range for total CapEx in 2016. The total gallons capacity, today we're at 1.215 billion and we have a small amount of increase that's left out of our Phase 1 expansion.

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

There is approximately close to 50 million left to go to finish up the project, so through Q3 and Q4 we should --

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

Exit 2016 somewhere around 1.260 billion.

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**Adam Samuelson** - *Goldman Sachs - Analyst*

Got it. That's very helpful. I will pass it along thanks.

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**Operator**

Laurence Alexander, Jefferies.

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**Jeff Schnell** - *Jefferies LLC - Analyst*

Hi, this is Jeff Schnell on for Laurence. Could you talk about your yield?

You consistently have higher than average yields. How much further can you push it? And can you talk whether or not Enogen corn might be a strategy for the remaining half of the plan?

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**Todd Becker** - *Green Plains Inc. - President & CEO*

Yes, So 2.87 yield was one of our best quarters if not our best quarter we've ever had driven by a lot of different factors. All of the improvements that we've made over the last several years and going after more yield whether mechanically or through enzymatically or now through Enogen we have, we are evaluating the rest of our Enogen rollout at this point. We haven't committed to do that yet.

I think there's again positives and negatives but the positives outweigh in our favor. And so we like the product. And so we evaluate it on a case-by-case basis, plant-by-plant basis what the growers are doing in each of the areas.

I would say it does have some impact on some yield impact for us, also one corn oil yields as well. But more so what we've gone after is mechanically and enzymatically other things that we've worked on in the plans to go after yield, as well.

So that yield -- we invested plenty in yield improvements over the last several years as you've noticed through at the Fine Grind, SMT, now through Enogen. And a combination of all of those if you put it together in a cocktail has resulted in higher yield.

And I will have to wait and see what the new crop looks like and available starch in the ethanol and the corn kernel and so on. But I would say into across the board if you put all of those things together it's what's impacting our yield and not necessarily one single variable.

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**Jeff Schnell** - *Jefferies LLC - Analyst*

And then in past you've tailored down production in weaker margin environments and you mentioned in your response earlier that you don't expect to do that going forward despite the pending turnaround season. If margins were to stay in this current range what would have to happen for you to change your mind on production rates?

**Todd Becker** - *Green Plains Inc. - President & CEO*

We do have turnarounds as well coming, so and the industry has turnarounds coming and during those time periods we typically see low 900s of production for the inventory across the board. So we're coming into that season I think from the margin standpoint.

And then the reason you are seeing 1 million barrels a day in the industry is because the margin environment is telling you to run just about as hard as you can and the industry is doing that today based on current demand. But even with that said, we saw a big draw last week, we've got good export demand, we've got great domestic demand every single week.

So overall even though we're producing 1 million barrels a day and that seems to be the headline number that everybody is focused on we are clearing those volumes in the market as I indicated in our prepared remarks. These markets -- we are not growing a bunch of inventory at these levels, even at 1 million barrels a day, because gas demand remains were so robust.

So in general I think when we talk about our numbers it includes our slowdowns anyways. But the market in general has had that season coming which I think will at some point be favorable for the overall margin structure.

**Jeff Schnell** - *Jefferies LLC - Analyst*

Thanks very much.

**Operator**

Farha Aslam, Stephens.

**Farha Aslam** - *Stephens Inc. - Analyst*

Hi, good morning. Given the volatility in ethanol margins, could you just share with us relative to that $0.17 you saw in the first quarter what they are today and perhaps what they were on average for June and July?

**Todd Becker** - *Green Plains Inc. - President & CEO*

So when we look at today it's definitely -- there's been sometimes during the third quarter or second quarter and third quarter where margins have been better. And I would say they are a little bit worse than that today.

And the consolidated crush, I would say today consolidated crush margins are running $0.05 below that at this point. But we see $0.05 volatility on any given day. We have $0.02 and $0.03 a day volatilities moving in this crush right now.

And I think a lot of it was driven by this break in corn oil and -- or not corn oil, crude oil, and what we've seen crude oil break back into the $40s which has pulled down most of the products pricing right now. So I would say overall we are in the consolidated crush high single digits, low double digits at this point. But that's not to say that during the quarter we haven't seen a lot higher than that and lower than that.

So if you just look at a place in time you're probably consolidated crush on paper for the rest of the year in that $0.10, $0.11, $0.12 a gallon basis versus $0.17 a gallon. So we're just going to have to wait and see how this translates. We've seen again we seen much higher than this as well during the quarter, and it's just a lot of volatility taking place on a weekly basis.

**Farha Aslam** - *Stephens Inc. - Analyst*

That's helpful. And then on RIN values, currently RIN values are very elevated. Could you give us your thoughts on how that impacts ethanol demand and your outlook for the biodiesel tax credit?

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**Todd Becker** - *Green Plains Inc. - President & CEO*

Well, the RIN values pushing into these $0.90-plus ranges doesn't hurt when the discretionary blender can buy ethanol at a $0.10 premium to gasoline and get a $0.90 tax credit or get a $0.90 RIN value that he can sell into the market, which is why we started to see the E15 roll out across the United States with the discretionary blenders. It's even arrived in Omaha as of late, the pumps are starting to come in. We have stations now selling full E15 at their stations.

So we believe over time that that will result in increased domestic demand. And from the standpoint of higher RIN values, certainly we don't necessarily see the benefit as a Company from the bottom-line perspective because we don't get any of that. But we do see it from expanded demand, which is why I think you will continue to see strong demand going forward because of the E15 rollout across the United States.

So we spent a lot of time and a lot of money as an industry educating the retailer and pushing the product while they expect fully that they will get, the product will start to get pulled through their supply chain from the consumer as they start to see the discount of E15 to E10 gas as they pull up to the station. So we're -- the RIN is helping that for sure, but it is still continues to be a bit of a zero-sum game.

Somebody is benefiting from a $0.90 RIN and it's costing others. So we continue to believe that it's still a zero-sum game but we will have to watch it going forward.

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**Farha Aslam** - *Stephens Inc. - Analyst*

That's helpful. Then my final question is on DDGs and China. Do you expect Chinese demand for DDGs to vary if they do put on a tariff and your thoughts around DDG pricing for Green Plains?

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**Todd Becker** - *Green Plains Inc. - President & CEO*

So in general the Chinese are relatively absent anyways from the market. We're doing the minimal amount. We're not at maximum levels like we've seen.

And so DDGs are ranging from this 90% to 110% the price of corn. And so without China I think we will range on the lower end of that in terms of percentage values versus corn. But we continue to clear all of our supply in the market anyway.

There's not excess DDGs sitting around. What happens is when China comes in they push our contribution margin higher from distillers grains in the overall crush and without China they don't quite have the same contribution percentage. Overall I think somewhere in that historical 90% to 100% the value of corn range without China will happen.

Now interestingly enough even with a tariff it still remains somewhat competitive in certain regions and certain functions around why there would be distillers grains in China. But we would expect that if they do put a 20% to 40% tariff on distillers into China for the time being it would result in a significant slowdown of that demand.

Notwithstanding that, we have seen other parts of the world pickup, as well. So the market is taking that excess. It's just a matter of the relationship of corn to DDGs.

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**Farha Aslam** - *Stephens Inc. - Analyst*

Great, thank you for the added color.

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**Operator**

Craig Irwin, ROTH Capital Partners.

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**Craig Irwin** - *ROTH Capital Partners - Analyst*

Hi, good morning and thank you protect my questions. So Todd, could you comment a little bit about utilization in the quarter, how this progressed through June, where we stand now and your view on how the 3%, 3.5% growth in miles driven gasoline demand shapes utilization for Green Plains and the industry for the rest of 2016?

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**Todd Becker** - *Green Plains Inc. - President & CEO*

Yes, so for Q2 we still had shutdowns and we were coming off of a slower Q1 so as well as when you produce that much export grade we slow down a little bit as well on low-water specs. So from the standpoint of Q2 utilization that was just coming off a slow utilization with turnarounds. So now that we get back into Q3 and we expect mid-280 million gallon range, between 280 million and 290 million gallon range for Q3, our utilization is running pretty hard.

We still have some places actually that we can continue to improve but some of it is due to lower export and some of it is due to just normal mechanical fixes that we are doing across the platform. So with the demand that we see we think the industry is running towards that 90%-plus utilization, if not into the mid-90s. So we're getting about a max utilization rate at about 1 million barrels a day.

We're not all of a sudden going to push every day to 1.1 million barrels. And we had indicated earlier in the year and late last year the week of the industry would get to 1 million barrels a day of production in 2016 and start to flatline a bit from there.

So for the rest of the year we think our utilization will be as Jerry said in the kind of mid to low 90s, which is positive for the MLP. It's producing somewhere around 285 million to 290 million gallons a quarter and we will continue to improve on that.

So demand is taking everything we produce. And any import any uptick in exports and downtick in production due to turnaround season and maintenance season we think is all positive for the margin structure from here which has seen a bit of compression as of late.

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**Craig Irwin** - *ROTH Capital Partners - Analyst*

And then my second question is about 2017. I know it's a little bit early to break out the crystal ball here, but maybe can you frame out for us what the impediments could be for us to progress from the base scenario-type earnings that we're seeing now to more of a midcycle-type earnings?

We've got growth, we've got strong exports, we've got a corn crop that's working in our direction. What do you see as major deltas that could impede a midcycle learning scenario for 2016? And maybe if you could throw some probabilities or color on that, please.

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**Todd Becker** - *Green Plains Inc. - President & CEO*

So, on the positive side we continue to see $40 to $50 oil, which we think is positive for miles driven, gas prices that are in those low $1.25 to $1.40 range which is positive for the consumer in the pocket. Ethanol remains a cheap fuel in the world today even at 5 to 10 over corn, or 5 to 10 over RBOB versus 5 to 10 under RBOB.

You see corn pushing towards $3 which is a positive for us, yet have the corn basis remains strong which I would say more so on the negative side but not enough to offset the break in corn. We have good outlook on E15 demand in a kind of 150 million to 250 million gallon range is what we think for 2017.

So if you have your basic gas demand at 145 billion to 150 billion gallons a year, you can potentially have 14.5 billion gallons, 14 billion to 14.5 billion gallons of ethanol demand just domestically, add a couple hundred million gallons for E15 and add 1 billion gallons for export and 1 million barrels a day which we don't think you can do every single day, 365 days a year it looks like the world will need our product and especially with $0.19 sugar against $3 corn if you use a 20 under basis in Nebraska. So we're very competitive globally for our product which should be a demand poll, which is why we have priced some even full 2017 export values or export sales, we have made sales for full 2017 at this point which is very, very early to start to see that demand show up.

So overall we I think the positives for 2017 outweigh the negatives. We're going to see supply growth by 2% or so and demand growth by 2% to 3%. But it should favor the US from the supply standpoint in the world, and if you look at what's happening in Brazil they are crushing for sugar not for ethanol which is why you are starting to see them come to us, as well.

So then we will see what happens in Europe. If Europe, at times we see that our window open, as well.

So I would say for 2017 all of the fundamentals that remain in our favor, obviously they all have to play out, and I think we're starting to see at least a base solid demand structure for our product which is not allowing the first quarter to repeat itself when we just had too much supply coming out of a lot of cheaper sugar and cheaper ethanol in the world. So overall everything remains on track for that mid-2017 inflection point where demand outpaces supply and the world becomes short ethanol -- shorter ethanol.

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**Craig Irwin** - *ROTH Capital Partners - Analyst*

Great, thank you for that. Thanks again for taking my questions.

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**Operator**

Sandy Klugman, Vertical Research Partners.

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**Sandy Klugman** - *Vertical Research Partners - Analyst*

Good morning. A question on China. So ethanol exports to China they've surged, through May the region has accounted for more than 30% of shipments out of the US.

The question is how do you see demand from the region evolving both in the near term and over the long term? And how do the changes to the region support price for corn impact your views?

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**Todd Becker** - *Green Plains Inc. - President & CEO*

I will let Steve answer that question because he has been the person who has spent the most time over there in China and helping us develop those markets for both not our Company but also the industry, as well.

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**Steve Bleyl** - *Green Plains Inc. - EVP, Ethanol Marketing*

You see demand, it does seem a little start-stoppish, if you will. But right now we talk to them every month, they look at the values every month.

The consistency that we'd like to see, the steady flow we don't have yet. But you do see when they come in it's big numbers for any given month. So to be able to say we want to see them buy for 12 is the goal, but we haven't seen them get to that point yet where they are doing the forward buying.

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**Sandy Klugman** - *Vertical Research Partners - Analyst*

Thank you. Then conversely exports to Mexico are down 17% year to date. But what's the driver there and how do you view the long-term opportunity for ethanol to displace MTBE as an octane enhancer in the region?

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**Steve Bleyl** - *Green Plains Inc. - EVP, Ethanol Marketing*

We've actually been down there on education and that's exactly the message we're talking about is the MTBE replacement for Mexico. The opportunity is huge. At a 10% blend rate it is 1.2 billion gallons, at 5.8%, which is what they blend MTBE at, it is 750 million gallons or so, right in that range.

The objective is as Pemex starts to go private is to find every body's niche in the marketplace. Right now it's more of an industrial grade export volume that's going down there. It's not as much fuel grade.

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**Todd Becker** - *Green Plains Inc. - President & CEO*

And we have made recent sales as a Company on the industrial side into Mexico, correct, Steve?

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**Steve Bleyl** - *Green Plains Inc. - EVP, Ethanol Marketing*

That's correct.

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**Sandy Klugman** - *Vertical Research Partners - Analyst*

Okay great. Thank you very much.

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**Operator**

Selman Akyol, Stifel.

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**Selman Akyol** - *Stifel Nicolaus - Analyst*

Thank you. A couple of questions on Partners, please. So first of all, since you've announced your JV have you seen additional interest, have people come to you at all and said with projects or anything of that nature?

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**Todd Becker** - *Green Plains Inc. - President & CEO*

With projects or --

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**Selman Akyol** - *Stifel Nicolaus - Analyst*

Or just ideas in general in terms of just getting signed up for taking capacity, etc.

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**Todd Becker** - *Green Plains Inc. - President & CEO*

In terms of at the Jefferson Terminal?

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**Selman Akyol** - *Stifel Nicolaus - Analyst*

Yes.

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**Todd Becker** - *Green Plains Inc. - President & CEO*

Steve, do you want to comment on the market acceptance to Jefferson Terminal?

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**Steve Bleyl** - *Green Plains Inc. - EVP, Ethanol Marketing*

So far it's been very positive. They look at it is a great alternative to the Houston market for several reasons, just mainly for congestion reasons. The ability to have multi-grades in a different place other than Houston has really excited a lot of people, both resellers and producers alike.

So we wanted to get feedback from all the way across and we talked to a bunch of people about it. So far it's been very, very positive about the location.

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**Selman Akyol** - *Stifel Nicolaus - Analyst*

I got you. Then on the maintenance capital expenditures, is that a good run rate for the second half looking at the first half of the year?

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

This is Jerry. I think the first half it might be a little bit light.

We've typically used $500,000 for an annual run rate on maintenance CapEx. It looks like this year we might be a little light against, but somewhere in that range.

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**Selman Akyol** - *Stifel Nicolaus - Analyst*

All right. That does it for me. Thanks.

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**Operator**

Pavel Molchanov, Raymond James.

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**Pavel Molchanov** - *Raymond James & Associates, Inc. - Analyst*

Thanks for taking the question, guys. A couple of months ago the EPA came out with only a 2% increase in the proposed corn ethanol mandate for 2017. And given your comments about how E15 is looking good and so forth, why do you think they are being so cautious?

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**Todd Becker** - *Green Plains Inc. - President & CEO*

I think it was keep everybody somewhat happy and unhappy all at the same time. They came up with a number they didn't push through the full 15 billion gallon mandate as the law has indicated they need to do. But they also put it to a level where they will try and at least keep the ethanol industry somewhat satisfied, as well.

So I think they found a happy medium between everybody. Everybody is happy and everybody is complaining at the same time so that means the number must be somewhat in-line. So from our standpoint as a Company we haven't complained it all.

We're comfortable with 14.5, 14.8 as well because we think organically through the things that you just mentioned which is E15 and exports there will be plenty of demand for our product. It is a needed blendstock, it is a required blendstock from what they were producing at the refineries today anyway. They can't just sell 84 octane gasoline across the United States, so in general I think the EPA found a number that was at least a happy medium for everybody.

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**Pavel Molchanov** - *Raymond James & Associates, Inc. - Analyst*

Okay. On your deal with Abengoa, are those two plants currently operating?

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**Todd Becker** - *Green Plains Inc. - President & CEO*

Yes, I think they are operating. They have never actually stopped operating through their whole bankruptcy.

Keep in mind it wasn't the plants that caused the bankruptcy. The parent company and their own problems that they had globally is what caused the distress across the Company.

So these plants are operating, we know them well, we know the locations because we have Eastern plants, as well. And so we think it will fit nicely into our portfolio and hopefully at the auction we'll be there and we are successful.

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**Pavel Molchanov** - *Raymond James & Associates, Inc. - Analyst*

So it's a seamless transition, in other words, operationally if you end up buying them?

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**Todd Becker** - *Green Plains Inc. - President & CEO*

Yes, if we end up buying them it will be as seamless as anything else we bought. Close on a Friday and we're operating thereby Saturday without any issues or transition at all.

There is very little from our perspective. We can move in very quickly and we've done enough diligence and research on those assets and what they use that it will be literally a seamless transition.

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**Pavel Molchanov** - *Raymond James & Associates, Inc. - Analyst*

Perfect. Thanks, guys.

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**Operator**

Andrew Weisel, Macquarie Capital.

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**Andrew Weisel** - *Macquarie Capital Securities - Analyst*

Hey, good morning guys. Just to follow on that question about M&A if you could maybe talk a bit more broadly, on the last call you describe the market as very inactive.

Just more broadly how do you see opportunities for ethanol consolidation today? And then from Partners perspective if M&A doesn't happen either from Inc. or a third party, can you remind us about organic growth opportunities for the MLP?

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**Todd Becker** - *Green Plains Inc. - President & CEO*

It's funny because we always say that it's slow but we always end up picking up one or two ethanol plants a year and if we are successful in the auction as well we'll pick up one or two more this year. This is a natural progression through an industry that still has significant independents throughout its amount of players.

When you look at a couple hundred ethanol plants that are out there and then look at what is owned by the top six or seven players there's still significant consolidation opportunities that you just don't know when you come into any given year what is going to be for sale or not. But we do believe that the market will continue to change hands and we've seen other assets besides Abengoa individual assets for sale that are starting to come and at least starting to get questions around it.

So we think we will continue to have Inc. be, Green Plains Inc. be active in the M&A market for the next several years at least with one to two to three acquisitions a year on average like we have in the past. So we don't think that's going to change and we continue to believe that the ethanol industry will continue to change hands over time.

When we look at organic growth opportunities, obviously doing things like we've done in the past which is looking at terminals, looking at growth in terminals, doing the Jefferson business, hopefully completing the Little Rock area terminal as well and from that standpoint we still think this acquisition opportunities for the partnership, as well. We're underlevered, so our leverage ratio is great.

We do not have a lot of debt on that asset. But we've got great coverage ratios and we believe that when we look and we evaluate assets, and we do that every day, that where can Green Plains add value to the assets that we would purchase through an M&A transaction? Because we really are not just focused on some standalone product asset that we would not have any impact on improving the turns or the volumes going through.

So we are looking at several different acquisition opportunities outside of our normal, just terminal structure that we have, things that we can add value to as well with our products. So overall I would say at this point in any given day we're evaluating somewhere around $1 billion worth of acquisition opportunities, some that may get further and some that get cut off pretty quickly out of our process. But we have a very robust process going on that we believe will continue to grow both enterprises.

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**Andrew Weisel** - *Macquarie Capital Securities - Analyst*

Great, that's very helpful. The next and last one I had, nice improvement in the coverage ratio at Partners.

I imagine that's what drove the acceleration in distribution growth. Are you still thinking about 1.1 times as a good target for both near and long term? And then are you willing to get any more specific on a multiyear outlook for growth either in distributions or distributable cash flow?

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

I think 1.1 times coverage ratio is still our target. And again, most importantly, I view that on a four-quarter basis. I don't like to take just the second quarter at 2.16 -- 1.16 and say that justifies a distribution increase.

I think of it more quarter to quarter you put four quarters together and as I said we're at 1.06 times. We see that increasing particularly as you see stronger volumes that we've talked about today. So we see that increasing over time and, of course, that's really what's driving the optimism and increasing the rate of growth in the distribution.

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**Andrew Weisel** - *Macquarie Capital Securities - Analyst*

And then the question about long-term growth, any willingness to comment on the outlook?

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

Long-term growth I think it's really unchanged since our IPO. High single digits, low double-digit kind of long-term growth in distributable cash flow is what we're focused on generating.

Whether we distribute that in terms of the actual distribution is another matter because, again, we want to stay very conservative in our balance sheet, maintain a good coverage ratio on our cash distribution as well as a good leverage ratio on our debt. So I think that cash flow generation at a high single-digit, low double-digit range will allow the partnership to meet all expectations.

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**Andrew Weisel** - *Macquarie Capital Securities - Analyst*

Great, thank you so much.

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**Operator**

That will conclude our question-and-answer session. I'd like to turn the conference back over to Mr. Becker for any additional or closing comments.

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**Todd Becker** - *Green Plains Inc. - President & CEO*

Just thank everybody for coming on the call. Obviously a good quarter. We are very happy with the results.

We got some positive things that are happening around the Company. You can see when we increase production by a little it has positive impacts to Green Plains Partners. As well overall you can see why the law of large numbers is very meaningful for us now as we push towards the 1.2 5 billion gallons.

And each move has significant opportunity for us to increase our platform, our earnings and our distributions and our cash flow. So we will see you next quarter and thanks for coming on the call today. Thanks.

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**Operator**

That does conclude today's teleconference. We thank you all for your participation.