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GPRE - Q4 2016 Green Plains Inc and Green Plains Partners LP
Earnings Call

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CORPORATE PARTICIPANTS

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

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

Jerry Peters *Green Plains Inc. - CFO*

Ken Simril *Fleischman's Vinegar Company - President and CEO*

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

CONFERENCE CALL PARTICIPANTS

Adam Samuelson *Goldman Sachs - Analyst*

Ed Westlake *Credit Suisse - Analyst*

Farha Aslam *Stephens Incorporated - Analyst*

Brett Wong *Piper Jaffray - Analyst*

Heather Jones *Vertical Group - Analyst*

Craig Irwin *ROTH Capital Partners - Analyst*

Dan Rizzo *Jefferies - Analyst*

Ethan Bellamy *Baird - Analyst*

Selman Akyol *Stifel - Analyst*

Pavel Molchanov *Raymond James - Analyst*

Patrick Wang *Baird - Analyst*

PRESENTATION

Operator

Good day everyone and welcome to the Green Plains Inc. and Green Plains Partners Fourth Quarter 2016 results conference call. Today's event is being recorded. I'll turn the conference over to Jim Stark, please go ahead sir.

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

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

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

During this call, we will be making forward-looking statements which are predictions, projections and other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in yesterday's earnings press 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.



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You may also refer to Page 2 of the website presentations for information about factors that could cause different outcomes. We do not undertake any duty to update any forward-looking statement.

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

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

Thanks Jim and good morning everyone and thank you for joining our call today. We reported net income of \$18.7 million or \$0.47 a share for the fourth quarter. EBITDA was \$83.5 million for the quarter and for 2016 we reported \$174.4 million of EBITDA, the second best year in the last eight years of profitable performance.

Our results for the fourth quarter were driven across the board by solid performances in all of the segments. As you can see, small moves in the consolidated crush margin can yield big results for the bottom line. This is due to the law of large numbers which we have discussed in the past as we start to achieve scale throughout the supply chain.

The consolidated crush margin, which is operating income before depreciation, amortization from the ethanol production segment including corn oil plus intercompany fees such as Green Plains Partners storage and transportation fees was \$81.6 million or \$0.24 per gallon for the quarter. Interestingly, both acquisitions we added in the fourth quarter were immediately accretive and it helped with the strong results we reported.

As you can see we moved around reporting segments to better reflect our long-term strategic objectives and for ease of reporting consistency. Jerry will cover more specifically how this is structured and the results per segment. We produced a company record \$334.2 million gallons of ethanol and to put this in perspective that is more than the yearly production capability on October 16, 2008, the first day post-merger after forming the new modern-day Green Plains. We also produced 894,000 tons of distillers grains and 77.4 million pounds of corn oil while processing over 3.3 million tons of corn.

Our yield was 2.86 gallons of ethanol per bushel of corn for the quarter. All 17 of our plants ran as expected in the quarter including Madison, Mount Vernon and York plants added in the last week of September. Green Plains Partners reported its best quarterly performance since the IPO as we maintain a strong coverage ratio of 1.27 times for the quarter and 1.16 times for all of 2016. Jerry, again, will cover more in-depth the financial results of this business later in the call.

For Green Plains, ethanol exports accounted for 11% of the company's ethanol production for the fourth quarter. We also exported 18% of our distillers grains to 68% of our corn oil that we sold globally. For the year exports of ethanol accounted for 13% of our total production gallons with 96% of those gallons going to India, Brazil, Europe, Canada and the Philippines. We continue to see strength in these same export markets in the current quarter and for the rest of 2017.

To give you some perspective on this strength, we exported 15% of our production in January, the month just completed, and plan on exporting 25% of our production of ethanol in February. This is all in relation to the fact that we produced slightly less than 10% of total U.S. production of ethanol.

The ethanol margin environment was much improved for the fourth quarter compared to the previous quarter. Gasoline and ethanol demand both finished this year strong. Ethanol exports were also strong in the fourth quarter as the industry exported 352 million gallons bringing net exports for the U.S. over just one billion gallons last year.

The exports combined with solid blending kept inventories down as we finished 2016. The market expected stocks to build more than they did last quarter which sets up 2017 as an interesting year once we worked through some of the winter driving doldrums. What everyone forgets is we have to build stocks during the winter to overcompensate for very strong demand weeks once the driving season starts. So while our margins initially reacted negatively to the builds, we are starting to see some recovery off the recent lows.



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Another factor is while absolute stocks of ethanol are higher than shown, are higher as shown in recent EIA data, we are down to 21 days of stocks versus total demand as compared to 26 days last year at this time. I cannot reiterate this point enough. Ethanol exports continue to be firm for the first quarter of 2017 as we believe the industry will export between 300 million gallons and 350 million gallons for the quarter putting us on a path for exports to exceed 1.1 billion gallons this year as we have China -- and we have China taking zero gallons in our analysis as well.

Production rates remain seasonally high running what we believe to be a level that would be hard to achieve for 365 days. We believe that once March maintenance shutdowns take place and outdoor temperatures rise, production rates will come back down a bit. We believe the industry will produce somewhere between 15.3 and 15.6 billion gallons in 2017. If you assume normal downtimes of 10 to 15 days a year and a little over a million barrels a day production coming off of that, you can back into this number easily.

In all, we had a strong finish to 2016 with one of the best quarters that we've had since 2014. Overall we are not particularly happy with the full year results impacted mainly by the loss in the first quarter. We believe the platform is set up well for future margin expansions. I'll come back into the call later to discuss more details on our segments and how things are shaping up for Green Plains in 2017 so now I'll turn the call over to Jerry to review both Green Plains Inc. and Green Plains Partners financial performance.

Jerry Peters - Green Plains Inc. - CFO

Thanks Todd, good morning everyone. For Green Plains Inc. consolidated revenues were \$932 million in the fourth quarter which was up \$192 million or about 26% from a year ago. This was driven by the acquisitions of the three ethanol plants as well as Fleischmann's Vinegar Company.

Volumes of ethanol sold for the quarter were up over 30% to 379 million gallons while higher average realized price per gallon contributed to the revenue increases as well. Our utilization rate for our ethanol production assets was approximately 90% for the fourth quarter of 2016 which brought the average utilization for the year up to about 89%.

Our consolidated operating income for the quarter was \$56.1 million versus \$12.7 million a year ago. This \$43 million improvement is primarily due to a strong ethanol crush, increased ethanol production volumes from our acquisitions and the addition of Fleischmann's Vinegar. EBITDA or earnings before interest, income taxes, depreciation and amortization was up significantly over last year's fourth quarter at \$83.5 million for the 2016 quarter compared to \$32.5 million for 2015.

With the acquisition of Fleischmann's Vinegar in the fourth quarter, we reevaluated our segment reporting to provide additional clarity on our overall strategy and simplify how we report our results. The partnership segment remains unchanged which reflects the results for Green Plains Partners. Partnership segment reported a record \$17.9 million of operating income. The ethanol production segment now includes the third party costs of grain consumed and third party revenues from product sales reported directly within this segment. In the past we [reflected] this as intercompany activity with the agribusiness and marketing segments.

So our ethanol production segment now seamlessly reflects the full supply chain without large intercompany eliminations. Plan origination fees, product sales commissions and throughput fees through Green Plains Partners are reflected as intersegment activity making this element -- making this element of our reporting much more understandable. Operating income for the ethanol production segment was \$35.9 million for the fourth quarter. The agribusiness and energy segment, energy services segment, which includes grain handling and storage, commodity marketing and merchant trading produced \$13.3 million of operating income.

Our new segment of food and food ingredients which includes our cattle feed lot operations and Fleischmann's Vinegar reported \$6.8 million of operating income. Both cattle and Fleischmann's Vinegar performed very well during the quarter.

Shifting to our balance sheet, our total debt today stands at \$1.1 billion at the end of the fourth quarter and that balance includes \$291 million on our commodity revolvers which are secured by significant working capital including readily marketable inventory of just over \$350 million at December 31. As we discussed on our last conference call, we utilized a pro forma leverage ratio to manage our balance sheet.



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This is intended to reflect the full year impact of our acquisitions and the performance of our platform through the full cycle which based on our actual experience over the last five years was just over \$0.20 per gallon. Using this approach our term debt leverage ratio is 2.9 times on our quarter-end debt balance which was slightly higher due to our 2017 acquisitions.

Our liquidity remains strong with \$356 million in cash on the balance sheet along with \$121 million available on our revolver. For Green Plains Partners we reported adjusted EBITDA of \$19 million, an increase of 33% from the fourth quarter of 2015; the primary driver being 34% higher throughput volumes on our ethanol storage assets.

Green Plains Partners had 334.2 million gallons of throughput, all of the throughput from our 17 plants which was -- and that total was approximately 85.4 million gallons higher than the fourth quarter of last year. Distributable cash flow as \$17.8 million or \$3.8 million higher than what we reported a year ago. Maintenance capex was minimal at about \$13,000 for the quarter, for the fourth quarter of 2016. The partnerships distribution is now at \$0.43 per unit and that results in a coverage ratio for the quarter of 1.27 times and for the full year of 2016, 1.16 times.

We're getting a lot of questions from investors on our view on potential corporate tax reform in the U.S. Obviously it's still very early in the process but if there is a meaningful change in the corporate rate, Green Plains could certainly benefit from a lower rate. As you are aware, we are a full rate U.S. tax payer and as an exporter of products we certainly could benefit from the Border Adjustment Tax depending on how it is structured. We will continue to track the details of both of these topics along with any movement on the MLP [30 Act] as they unfold.

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

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

Thanks Jerry and just to continue on that theme I'll just touch briefly on the new administration and the overdone speculation surrounding it. Our belief is that President Trump remains highly supportive of our industry. We have heard that from a number of sources including our elected officials and from administrative appointees. The freeze that was issued on upcoming regulations that were to go into effect tomorrow February 10, in our view was a routine move that each administration has done when there is a new one in place. Unfortunately the 2017 RVO is caught up in the freeze but we believe that will go into effect March 21 or sooner under the leadership of the new EPA administrator. While there are a select few pushing for a change in the point of obligation for the renewable fuel standard, I find it hard to believe that that is top priority for the administration and that all of the other obligated parties would agree with the change.

In fact, the coalition to keep it unchanged is a cross-section of players that we have never seen together before from retailers to integrated energy companies and refiners to railroads and truckers, the API and the ethanol industry. So even a small trucker who buys above the rack would be an obligated party which would just be an absolute nightmare. Finally, hundreds of millions of dollars are being spent on building out E15 infrastructure and we cannot stall the momentum we are getting from expanded blends in the marketplace.

Now we'll talk a little bit more about the business. So current ethanol margins, while not as good as they were in the fourth quarter of 2016, are better than the margins we experienced in the first quarter of 2015 and have trended up from the trough felt a few weeks ago. Obviously that number we mentioned earlier of 21 days of stocks versus use still makes the market a bit tight but we still have a ways to go but the trend is in our favor at this point. We were able to lock away approximately 100 million gallons of Q1 production at an average of mid-teens on a cents-per-gallon basis of EBITDA late last year which is certainly more than we're seeing in the market today. Over the last month we have also been in this spot as margins are in the high to mid-single digits at times across the consolidated crush, across our platform, yet I said are moving higher over the last couple of days. We believe this is driven by a few factors.

The curve structure went to full carry much like grain markets perform and as the industry has become more sophisticated we can hold gallons off the market and earn a return on our space. So for example, Green Plains has ten days of ethanol storage at our ethanol plants and we are taking advantage of the curve structure. These are gallons that we would have shipped and we believe the industry is also taking advantage of this as well and physical markets have tightened up as a result. So when you add that to the strong export program and the potential plan slowdowns we are hearing about broadly, the market seems to tighten up quite a bit as of late but we'll see if that holds in our favor.



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We are not changing our ethanol thesis for 2017. We expect gasoline demand in the range of 145 billion gallons to 146 billion gallons this year leading to about 14.6 billion gallons of ethanol at a 10% level. As I mentioned earlier in my comments, ethanol exports should be approximately 1.1 billion gallons and could be higher in 2017 and we continue to believe that E15 adds a couple hundred million gallons of incremental ethanol demand in the U.S. That totals 15.8 billion gallons of ethanol demand and if the industry produces on an average somewhere around 15.5 billion gallons this year we will still come up short to meeting demand. Ethanol returning to a discount to wholesale gasoline we believe also helps to drive blending from an economic incentive standpoint both domestically and globally. Farmers produce the largest corn crop ever the past season and as a result Midwestern basis levels remain on the weaker end of the spectrum. Distillers values have leveled out between 75% and 80% to price of corn and should remain that way for a bit until we see some additional demand from either export markets or more importantly from domestic markets as distillers remain to be some of the cheaper per unit of protein on the market today.

We have some evidence of expanded use with the value proposition that this product is feeders of all sorts. Finally we became at Green Plains a leader in distillers, container shipments around the world and was the largest exporter of distiller corn oil out of the U.S. In addition to that, almost 20% of our corn oil production, which was exported, was converted into food grade corn oil internationally. That is an interesting ongoing opportunity for the company in the global veg oil markets.

We are certainly pleased with the financial performance of the Fleischmann's Vinegar Company. They had another successful year in completing customer inspired contracts and we are essentially done with the high priority areas of our integration plan. Ken and his management team are making excellent progress on the various growth initiatives we have outlined in the past including Vinagreen and other agricultural applications as well as expanding internal capabilities for customer-driven demand, for antimicrobial products and of course our varietal business as well.

We are also looking opportunistically at acquisition within the food and food ingredients industry that can support our expansion into more stable and predictable cash flows, reducing volatility of the platform overall. Our cattle feeding business which is now in the food and feed ingredient segment had a strong year in 2016 as well; we believe that trend will continue in 2017. By applying sound risk and margin management programs you actually experience much less volatility than the ethanol crush and more stable and predictable cash flows that most do not give this business credit for. Our CRM program continues to achieve success for us. We now have 88 farmer customers, 8800, in our database which is 38% more than we had at the start of 2016. We achieved just under 57% of corn origination from farmers directly in 2016 and our goal to achieve 65% from farmers directly in 2017.

The five points of capital allocation have not changed; growth is still top of our list and it can come from any of the current businesses we are in or other adjacencies that take advantage of our supply chain capabilities. Three years ago Green Plains had a little bit over one billion gallons of ethanol production when we told the market we wanted to be a two billion gallon plus ethanol production company. We said it may take up to three to five years to achieve this goal but we've explained that in order to have scale in this industry you need to have that kind of capacity. Today we are 1.5 billion gallons of production capacity with one to three years left to reach our goal but I would say that we have -- we are approaching scale with our current platform.

Having almost 10% of the ethanol industries volume gives us a strong presence in the market on all commodities that are part of our supply chain. We have a number of growth projects in 2017 which includes an import, export terminal in Beaumont, Texas which is on track for ethanol and as we normally do, we will manage these projects based on internal competition for capital focused on long-term project returns.

In 2016 we returned capital to shareholders in the form of dividends and stock buybacks but also invested heavily in the future of the company. We remain very focused on balance sheet management and believe a strong liquidity position keeps us ready to maneuver anything that the market throws at us.

Natural debt pay down happens when margins expand as we are preparing to pay down almost \$30 million in term debt to required suites because the fourth quarter was so strong that we just reported. Finally, we spent \$550 million in the fourth quarter on both the historical core ethanol business with a purchase of three more ethanol plants and on the future with the purchase of the Fleischmann's Vinegar Company. Our organic growth initiatives are also beginning to contribute to the overall profitability of the company.



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So for the last eight years Green Plains has earned \$1.3 billion of EBITDA while producing 6.1 billion gallons of ethanol. We hope that that makes the power of our platform a little more apparent. In closing, we appreciate the confidence and longer-term view that our shareholders take in valuing our company as we continue to build a significant business in the agricultural and energy space.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions). We'll go first to Adam Samuelson of Goldman Sachs.

Adam Samuelson - Goldman Sachs - Analyst

Yes, thanks good morning everyone and congratulations on a strong end of the year.

Todd Becker - Green Plains Inc. - President and CEO

Thanks.

Adam Samuelson - Goldman Sachs - Analyst

Todd, maybe first on the first quarter as it's tracked and the production rates in the industry and you alluded to shutdowns or maintenance slowdowns in march but has the pace of industry production year-to-date surprised you? Has there been better operating capabilities in some of the smaller facilities than you might have expected and/or capacity creep up 7%, 8% year-over-year through the first four or five weeks? It's a big year-on-year increase.

Todd Becker - Green Plains Inc. - President and CEO

Yeah, it is. I mean, I think we're a little surprised when we saw numbers like 1060 a few weeks ago. We're starting to see those temper back down. I think the industry is, you know, hit the peak and it's starting to slow back down a little bit based on the fact that we're just producing a little bit too much versus the overall demand at this part of the year. So I think that while we said last year we will produce over a million barrels a day I think we should be prepared for that. That didn't surprise us, I mean, we're a little bit surprised that we can get up to a [million-sixty] a day but I also don't think that's sustainable for 365 days a year, as I said. We're at the peak of the ability to push as hard as we can because of the cold weather and -- but I think also when you look at that number, I still go back to that 21-days of demand versus the last year of 26 days of demand and margins were much worse last year while we have much higher run rates this year than last year.

So, I mean, the market is taking it, I think export demand is strong. I think we need some of these gallons, we're building that as fast as we were and we're going to come out into the driving season I think in a little bit tighter situation than we were last year which I think bodes well. So overall, yeah, a bit surprised that can get up that high so fast but I think we're starting to see that tempered a bit as producers are realizing that that's probably not the best way to be at this point.



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Adam Samuelson - *Goldman Sachs - Analyst*

That's helpful and then maybe going back to the export commentary where you talked over -- another year of over a billion gallons for 2017. Growth with China presumably out of the market for all intensive purposes, so kind of the non kind of piece of exports would be (inaudible) 300 million gallons year-over-year. Any color on the areas for growth or countries that might be taking a bigger part of that increment?

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

Yes, our view in 2017 is Canada and Brazil lead the way and I think Brazil is showing that certainly in the last couple of months but I do believe that it will continue on throughout the year. They're not intended to make sugar down there, or to make ethanol down there, it's fully intended to make sugar. That market continues to firm up as the corn market continues to sit here and so our view is that Canada leads the way with better volumes than they took last year. Maybe China takes a little bit of stuff just for industrial and then Brazil after that and then we get India, Philippines, etc.

So our number right now on paper exceeds, when we add all of that up together, exceeds 1.1 billion and we could see at a discount to gasoline even growth from there. I think that's a pretty good -- but Brazil is a key part of that. You know, we have Brazil in excess of 300 million gallons of imports this year and I think that's a reasonable number based on everything that we're seeing and that number could actually go higher potentially.

Adam Samuelson - *Goldman Sachs - Analyst*

That's very helpful, I'll pass it on.

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

Thanks.

Operator

We'll go next to Ed Westlake of Credit Suisse.

Ed Westlake - *Credit Suisse - Analyst*

Yes, congrats Todd on everything you achieved last year. Just a quick question on DGG's, and we [don't see] -- I think the stock got hit a little bit on that Chinese stories but you seem to be more relaxed so maybe just a little bit extra color there.

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

Yeah, so once the story came out the market had already been adjusted in price and I think that was the key. I think that was basically a -- the market was already basically came down into the 80% to 85% range, the price of corn after the Chinese earlier in the year, long before that story came out had started to slowdown anyway. And so we were already making adjustments. What we're seeing is the -- in addition to that we got the double whammy of Vietnam had to do a slowdown as well because of fumigation issues that they needed to work through. We're starting to see them reengaged at least on a discussion standpoint in country on reengaging with the U.S. If we do that we're hopeful that that will bring back some export demand out of the U.S. but overall we've settled down here in the 75% to 80% to price of corn. And once that's in the model then that's a given and now you have to work around all of the factors and so we are starting to see better inclusion rates at some of our integrated feeders in the U.S. that we do business with because of the value of the protein and the things that we've seen in (inaudible) around the world and just the [sensational] demand for protein. So, there is a point where distillers just stop going down and I think we've reached that point right now and I think that at least we know that that's a stable factor in our crush margin; it really has more upside than downside from here.



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Ed Westlake - *Credit Suisse - Analyst*

And then you're a keen observer of the corn markets, you know, we filled storage a lot because we had bumper crop, we can't predict what the growing season is going to look like, that's very much weather related, but if you think about a normal season or a weak season or a bumper season maybe just some observations as to what we'll do with the corn if we again have another good year.

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

Yes, I think that's a great question and so I'll start real quick, you know, the market is expecting around 90 million acres this year but if you take a look at the profitability of the farmer in the seven or eight best producing states in the U.S. it actually is profitable to produce corn again. And so our view is that that will be on the low end of the acreage, final acreage that we see this year and we're starting to do internal surveys with those 8800 customers across our supply chain. And what we're seeing anecdotally is that we don't believe that it will be as extreme at this point based on what we're seeing is that we don't believe that the drop will be as extreme as the market sees in acres but even if it drops to those levels it's in areas that corn is not always the best thing to plant but in the strong corn planting areas you might have 90 million better acres than 93 million total acres in your production, you know, if you go above trend, could really be interesting.

So our view is that in a normal growing season that's all we can bet on between 90 and 93 million acres of planting at a trend yield, carryout gets bigger again in the United States and there won't be a lot more ethanol demand for that and we lose -- I think the key point is that if you've seen the estimates come out of South America on South America crops with the corn crop getting bigger again in South America based on some estimates that came out even today, we will -- the last time that happened we just lost all our export share on corn by the United States in the summer and then what are we going to do in that situation as well.

So, if we get that 90 to 93 million acres at trend-line yields, and we see a drop-off in export corn demand, there is nothing else to take that corn at this point which we believe is favorable over the long-term for our business.

Ed Westlake - *Credit Suisse - Analyst*

Well after those two lead-ins I have to ask what you're going to do with the dividend?

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

Yeah, you know look we're assessing that. I mean, you saw that we allocated a lot of capital in growth last year. You know, we're always looking for opportunities but I would say that if we can generate -- if we see a strong margin here overall we will evaluate all of the different things that we do to allocate capital and dividend is one of those and I think you see in the MLP we're not afraid to raise the dividend and we would not be afraid to raise the dividend in Green Plains Inc. as well if that's the best use for capital.

Ed Westlake - *Credit Suisse - Analyst*

Okay, thank you.

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

Thanks Ed.



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Operator

We'll go next to Farha Aslam of Stevens.

Farha Aslam - *Stephens Incorporated - Analyst*

Hi, good morning.

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

Good morning.

Farha Aslam - *Stephens Incorporated - Analyst*

Could you update us on the Jefferson Terminal and have you made a decision whether you're going to go with the Part 2 and double the capacity of the Jefferson Terminal?

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

Yeah, so we'd like to get done with Part 1 first so we're going to -- we think the first tanks will come on in July, ready for the last half strength in the export season. We are in open season right now with talking to no less than 20 to 25 potential customers of the terminal on long-term throughput agreements. We've got a lot of demand for that terminal and it's evidenced by the fact that even in the last couple of -- even in the last 30 days when the fog rolled into the Gulf, Beaumont, where we would have our terminal, never shut down and would have no delays and while the Gulf has boats stacked up in the other export terminals for ethanol. So, I think that was a good exercise for people to see as we're going through open season.

You know, we will evaluate, we want to get done with Phase 1 first but we're already evaluating Phase 2 not just for ethanol but for other agricultural products that we export like corn oil through that terminal as well as distillers grains through that terminal. So overall we're still on track on all of our assumptions that we thought about when we did this project and at this point we're not going to make a decision on Phase 2 yet.

Farha Aslam - *Stephens Incorporated - Analyst*

And could you remind us how much EBITDA that should add to, that Part 1 will, to [DPRE] roughly?

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

Go ahead Jerry, I don't know if we put that specific number up but I think it's between \$5 million and \$10 million.

Jerry Peters - *Green Plains Inc. - CFO*

Yeah, I don't think we published a specific number for EBITDA but it's a \$55 million terminal and, you know, the EBITDA multiple on that is in the \$5 million to \$6 million range.



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Farha Aslam - *Stephens Incorporated - Analyst*

That's helpful. And then just as a follow-up on the core ethanol business, can you share with us more color on E15, kind of how much you expect, how many gallons E15 to absorb and kind of where that market stands and what's the underlying strength with the uncertainty in the point of obligation?

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

So I'll let Steve comment on E15 and the whole program and the rollout because I think there's some interesting color around that about the expansion and the stations and the capital spend that's been taking place. I'll come back to point of obligation once he's done.

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

I started to see more stations switch over. We have another new one coming through in an RFG market. We anticipate this year to add right around the 200 million gallon incremental due to E15 stations. The growth conference right now I was listening to earlier they were talking about there's a little over 600 stations with E15 and that's where it's still going but there are more people continuing to come forward to the Prime the Pump fund and see if there's still money available for switching over.

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

I think when Steve talks about one more switching he means one more chain with lots of stores.

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

Right.

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

So it's not one more gas station switching so I think that's important and overall we expect to have a thousand stations by the end of 2017, right? So I think we're starting to get penetration but what we're seeing Farha is that even people that weren't -- even companies that weren't in Prime the Pump, it's having a competitive impact on them when somebody across the street has added E15 and now we're seeing change that said they would not do it coming to Prime the Pump as well as other programs to try and figure out how do we get E15 into our gas station as well?

So, in our view we're starting to get -- we spent the money to get the first phase done as an industry and as the USDA and the second phase we think will happen more naturally from a competitive standpoint.

In terms of point of obligation as I mentioned in our call, there's certainly a lot of consternation and arguments going on around that. You know, our view is that we have put together a coalition of parties that have never been in a coalition before because they understand, we all understand together, the importance of keeping the point of obligation right where it's at and while there certainly are a couple of companies that are looking to move that, that's not the majority and we believe that we will be able to maintain that point of obligation for now. Obviously it's going to be a point of negotiation continuing on because we don't believe that the few companies that are fighting hard to move it will give up and we're just going to have to defend it and prove our point and make sure that the coalition that we put together puts all of the arguments forward and we believe that it will be heard and we will continue to fight to keep it right where it's at.

Farha Aslam - *Stephens Incorporated - Analyst*

Great, thank you for the added comment.



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

Thank you.

Operator

We'll go next to Brett Wong of Piper Jaffray.

Brett Wong - *Piper Jaffray - Analyst*

Excellent, thanks for taking my questions. Todd, you mentioned you're buying spot but with the improved margins recently and uncertainty that that's going to persist here in the near-term, are you guys locking in anymore of these higher margins?

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

Well, higher margins is relative, it's not high enough for us to say let's go and lock away a bunch of margins like it was in late December where we were pushing into the mid to high teens on the margin structure and we tried to get, quite frankly, as much done as we could at the time but then the market just moved so fast after that first stocks report that it went away from us. So, at this point, no, I think Brett the key is, is that we have 38 million gallons of storage at our platform and we're storing every gallon that we can and earning the return on our space which held 38 million gallons off the market. If you multiple that by a lot more plants across the industry, then you're going to -- then there's a lot of gallons that the market is incenting us not to ship; that's being felt.

The second thing that's being felt is when you start exporting 100 million gallons a month, that's being felt, and the tightness of that. And so our view is that we will continue to be aggressive on pricing export gallons to go offshore as you see with our February program at 25% and carry as much as we can when the market incents in and we're starting to see that have an impact on the margin structure. I don't think the end user quite feels as comfortable as they have 30 days ago when they started to see stocks build as we come to the end of the storage season and into summer driving.

And then the last thing is I just can't -- again, I'm going to reiterate this as much as I can, we have 21 days of stocks to total usage at this point versus last year at 26 days of stocks to total usage. We are tighter than we were at this time last year with higher stock numbers or as high of stock numbers in total. So, it's a totally different market when demand grows, you know, stocks need to grow along with demand but we are definitely in a tighter situation, I think the market is starting to feel it.

Brett Wong - *Piper Jaffray - Analyst*

Excellent Todd, thanks for that color, very helpful. And then just on your comments that you made about continuing to build your capacity out in the ethanol business just wondering if you could talk about the potential assets out there that you see and your willingness to potentially pay up compared to what you previously paid for acquisitions given some quality assets that you might see out there because I know those are coming fewer and far between of getting.

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

Yeah, I think the market came off of a strong fourth quarter and whenever that happens acquisitions become a bit harder to make. But I also feel like the industry is in some of the best financial shape that they've ever been in, you know, so a lot of times when you call for the demise of ethanol in one down quarter they're missing the fact that we had a pretty good 2016, an okay 2015 and a great 2014. So, industries in great financial shape. I think exits come from players that paid down debt and still can earn a return against the current values and I believe that we'll still have the ability



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to continue to look at assets. I think our advantages are MLP with our ability to use their cheaper cost of capital to help us acquire these assets when needed but at this point I wouldn't say it's a robust pipeline of ethanol plants but there are definitely people still shopping around looking to potentially do deals with Green Plains and, again, as I say -- as I often said in the past, this will probably be the last plant that we buy for a while and then we end up buying two more so I don't know what will happen in 2017, you know, I would imagine that we'll have some opportunities. Again, we don't want to -- there's a point where we just say that we'll just wait and be more patient but at this point I don't have anything to report in terms of any active deals happening.

Brett Wong - Piper Jaffray - Analyst

Excellent, thanks so much.

Todd Becker - Green Plains Inc. - President and CEO

Thanks.

Operator

We'll go next to Laurence Alexander of Jefferies.

Dan Rizzo - Jefferies - Analyst

Hi, this is Dan Rizzo on for Laurence.

Todd Becker - Green Plains Inc. - President and CEO

Hi Dan.

Dan Rizzo - Jefferies - Analyst

Just -- how are you doing? Just in terms of the vinegar market, do you guys -- do you ever breakout what your market share is there?

Todd Becker - Green Plains Inc. - President and CEO

No, and you probably won't see that. It's not a huge market globally but we're a big enough player in that market that it will be hard to get data out of us on volumes and total capacity mainly because they're so sensitive relative to other competitors out there that we can give you broad guidance on where we are and what we're doing and some of the things that we're doing and you'll see some of that guidance through this new segment that we have but in general I don't think that you'll get very much other data out of us in the vinegar segment.

Dan Rizzo - Jefferies - Analyst

Could you tell me what's driving the strength in the Fleischmann's Vinegar market or business and the cattle feed [lot]?

Todd Becker - Green Plains Inc. - President and CEO

Pardon?



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Dan Rizzo - Jefferies - Analyst

What's driving -- you said that Fleischmann's Vinegar is showing signs of strength I'm just wondering if --

Todd Becker - Green Plains Inc. - President and CEO

Oh, okay, yeah. Yeah, so -- and the feed we were able to lock margins away in the feed lot operations in our cattle feeding business well above hotel margins and that's what drove the business profitability and it was nothing more than everyday we buy cattle and hedge cattle and earn a margin. There was no real risk around doing that and the good thing for our business is that when it's not profitable to feed cattle, [back around the] other end that we are obligated to. So from our perspective we managed that business very opportunistically and we've been able to do that very well.

I'll let Ken just speak to some of the broader opportunities in vinegar and where some of the growth came overall for him but again we'll keep it at a high level as it's a highly competitive market -- it's a competitive market from a standpoint of not very many players and we just can't give too much information on all of those things they've been looking for.

Ken Simril - Fleischman's Vinegar Company - President and CEO

Yeah so as it relates to our vinegar business we've seen continued growth in our condiments, sauces and dressings business and what's actually driving that growth within that group, our specialty products group has done extremely well. We have antimicrobials that are in that space and that market continues to grow I think up for the quarter, we were up about 9%. Non-GMO was up about 18% and organic was up about 11% and those are the products that are really kind of accelerating our growth outside of our normal 2% to 3% growth rates that we've talked about on previous calls. And I think, you know, we're on trend, if you will, with all of the health and wellness, our products that are in the marketplace and then antimicrobials, that's a market that's really growing. Our growth rates today are about 50%, ten-year CAGR 50%, and that's finding application in the meat and poultry segments for lunchmeats and ready-to-eat meats. And so that's what's really kind of driving our business on an accelerated basis in terms of our traditional kind of growth rates, again, in our condiments, sauces and dressings.

Dan Rizzo - Jefferies - Analyst

All right, thank you very much for the color.

Todd Becker - Green Plains Inc. - President and CEO

Thank you.

Operator

We'll go next to Heather Jones of the Vertical Group.

Heather Jones - Vertical Group - Analyst

Good morning.



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

Morning Heather.

Heather Jones - *Vertical Group - Analyst*

Thanks. On the -- you mentioned the ten-days of storage, so should we anticipate that your gallons sold in Q1 will be meaningfully lower than it would have been otherwise? I mean, how should we be thinking about that?

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

You know the carry kind of -- is starting to come out of the market because the market is getting tight again so we'll just make the decision on what we ship versus what we store by the end of Q1 but at this point I wouldn't change any of your estimates as the market is starting to tell us that they need those gallons out. So, we'll see what happens by the end of the quarter.

Heather Jones - *Vertical Group - Analyst*

Okay. And then on your supply outlook, it implies call it 2% to 3% year-on-year growth which clearly year-to-date we've been up well north of that. So when you came up with that estimate, are you assuming that the industry will pull back some out of rationality or do you think that a lot of the increase that we're seeing now is the result of creep that came on maybe mid last year and so we'll lap it and then along with downtime so just help us to frame your outlook, guidance in light of what we've seen year-to-date?

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

Yeah, so we're not in any downtime at all really across the industry. We're running full out and that's keeping us about a million-fifty a day. Our view at 15.7 billion gallons is about a million twenty-five a day over the whole year and that takes into consideration 10 to 15 days of total downtime at a million-thirty a day. So, you know, overall when we look at that we just say what's reasonable? You know, typically what we see is a 2% to 3% drop during the second quarter from the first quarter on production levels is what we've seen in the past and so if you're at a million-fifty maybe you go down to a million twenty-five and then we see what the summer brings but you've got to also remember a very strong export program during the summer, during the heat, when we make less gallons anyways because of the gallons that, the type of gallons we produce, also has a bearing on how much you produce in the U.S. as well. So our view is kind of the 15, 3 to 15, 7 type number and that comes from about a million twenty-five a day roughly over the whole 365 days on average. I don't know if we're capable of doing that either, we'll have to wait and see.

Heather Jones - *Vertical Group - Analyst*

Okay, and then on the demand front, so export demand has clearly been strong but year-to-date it's not just domestically for ethanol but just gas demand has been weaker than definitely I had anticipated and just wondering if you could give us some thoughts on what do you think is driving the sluggishness and I'm not thinking about like in the seasonal downturn, I'm thinking year-on-year. So if you could give us some color on that?

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

I think there's a view on a couple of different points there and I'll let Steve expand on it but I mean, exports also need to be taken, or imports, into consideration and exports as well in these numbers. And then when we look at it, you know, yeah, we're definitely watching that very closely. We did see high inclusion rates last week in the last data numbers for ethanol which would imply gas demand has started to creep back up and then we'll see where that -- we'll see where we end -- next week. We also saw a tightness in EIA this week as well with gasoline stocks drawing. So Steve, do you want to talk a little bit more about that?



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

Well, I think they probably missed some of the exports going offshore, the gasoline exports potentially.

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

Yeah.

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

So that was part of it. But we've seen it and we've questioned whether some of it is West Coast weather is effecting it with some of the trouble they've had out there and so we definitely are looking at it but we still are sitting at about a 1, 1.1 growth rate for the year.

Heather Jones - *Vertical Group - Analyst*

Okay, so -- I mean, I was wondering weather too but I mean some areas have been unseasonably warm. So there's no reason for us to think -- I mean, it just doesn't intuitively make sense that demand would have just slowed down so dramatically over the course of one month. So you're not seeing anything that would make you think that?

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

No, we're not.

Heather Jones - *Vertical Group - Analyst*

Okay, thank you.

Operator

We'll go next to Craig Irwin of ROTH Capital Partners.

Craig Irwin - *ROTH Capital Partners - Analyst*

Yeah, good morning thank you for taking my questions. So Todd, this has been sort of touched but I wanted to ask if we could maybe get a little bit more clarity here. So, some of the ethanol market participants, the other producers we talked to out there, have said that they're hearing that Green Plains has slowed down production at a few different facilities within the last couple of weeks. Is this just an overly sensitive market maybe picking up on Green Plains moving over to a heavier mix of export spec ethanol sort of as we exit January coming into February or did you have any discretionary slowdowns during the quarter?

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

Well we heard that about all of the guys you asked, they slowed down too. So, anyways, so a couple of things. I think one thing we did across our platform is took the corn basis down \$0.10 across the whole United States and how people view that, they can view it any way they want but we have no problem buying and because of our farmer program we have no problem buying corn at our facilities at this point and have more than enough coming at us every single day than we need and all of our storage is full.



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So I think when you do that people initially think that you've taken your production down. You know, have we reduced slightly? Yeah, we definitely have looked at it where in certain areas of our bottom tier plans, it made sense to slow a little bit down and you could -- and the market is assuming correctly that we've done a little bit of that, nothing materially but enough to we believe that between slowdown and using our own storage to keep barrels off the market and exporting that Green Plains is part of the impact on some of the stock or some of the build in margins. But we also have heard that across the board that others have done a lot of the same things. Didn't see it in the numbers this week as we only were down 10,000 barrels a day, so we'll just have to wait and see if and when this kind of comes through the numbers if others have done the same.

So, we're not announcing any numbers for anything that we've done but marginally have slowed some of our bottom tiered plans.

Craig Irwin - *ROTH Capital Partners - Analyst*

Great. My next question was about the hedging position for the first quarter. So you mentioned 100 million gallons mid-teens position more or less on margins. Can you maybe share with us whether this was something more towards the front of the quarter or evenly distributed throughout the quarter so we can maybe parse what the spot exposure is to January/February?

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

Yeah, it was heavily weighted towards the first month of the quarter as we saw that was the best, highest point, on the curve forward. So we can't -- we're not going to give you an exact percentage on that but you could assume it was heavily weighted towards January.

Craig Irwin - *ROTH Capital Partners - Analyst*

Okay, great. And then my last question, the food product, M&A outlooks, so you wouldn't have bought Fleischmann unless you wanted to get bigger in a high margin staple business. Can you share with us the resources that you're putting on identifying and evaluating targets maybe whether or not you have active conversations with potential targets at this time and what you think about the potential for acquisitions in this area over the course of 2017?

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

We have an active M&A process across our whole platform. I would say that one of the definite places where we wanted to allocate capital in the future is in the food ingredient segment under Ken's leadership and we have Tier 1 and Tier -- we kind of basically break it down into kind of Tier 1 and Tier 2 opportunities. We do have several Tier 1 opportunities which are everything ranging from a small tuck-in acquisition to a larger platform acquisition and we look at everything between those. So I would say we are actively seeking to build off of the Fleischmann's platform and actively seeking to expand into food ingredient businesses much like Fleischmann's that have similar characteristics; either something that we produce or something we use or an adjacency to something that we can do or even completely something different if it's unique enough for us to say it makes sense to do that.

But, our focus is on things around adjacencies to what we do today and where we can leverage the capabilities of the Fleischmann's platform as well in terms of distribution, customer management, sales and research etc. So, stay tuned. I mean, I think that we're at multiple different stages with potential acquisitions as some -- as we always say, we don't know when one will hit but we are actively engaged in many opportunities.

Craig Irwin - *ROTH Capital Partners - Analyst*

Great. Thanks for taking my questions and congratulations on the record production.



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

Thank you very much, we appreciate it.

Operator

(Operator instructions). We'll go next to Pavel Molchanov of Raymond James.

Pavel Molchanov - *Raymond James - Analyst*

Thanks for taking the question guys. The fact that REN pricing has obviously fallen off a cliff without any policy changes actually having been announced, do you think that once there is clarity on kind of the EPA's intentions, there's a likelihood that we'll see a bounce back in REN's or do you think there's more downside?

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

You know, our view was even based on the market that we were in that REN's at a dollar were too high just based on market fundamentals and so I don't think REN's falling from a \$1.00 to \$0.50 can give you any view of what would happen if we go back to -- I'll get clarity on point of obligation and EPA and RVO's and those type of things. So, our view is that any of these price levels some of it is fundamentally driven and some of it is market driven in terms of different players coming in and coming out at different times and some of it is timing driven.

So, when you look at the RVO for 2017 which we believe will hold at 15 billion gallons, and a domestic market that should take 14.6 billion gallons we're going to need to use some of the excess REN's this year which could provide volatility throughout the year and -- but I think what we've seen here is a pullback from a market that we felt fundamentally was too high in the first place. Steve, do you have any other comments on that?

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

No, it's perfect.

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

Okay.

Pavel Molchanov - *Raymond James - Analyst*

Okay, and just a quick one about kind of your own M&A thinking and I appreciate that you're not guiding to any specific acquisitions, (inaudible) last year was unique in that you were able to buy a package of assets rather than one-off plans. Given that (inaudible) doesn't seem to be interested in selling their dry mills anymore do you think that package deals are going to be realistic going forward or is it going to be going back to one-offs?

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

I still think it's a combination of both potentially down the road. I mean, there are definitely players that own multiple plants and there's players that own single plants. You know, we don't view one as better than the other, we can close a single plant as fast as we can close three plants and it doesn't -- we're well set up to do that and integrate very quickly. So, our view is we want to do the best thing that we can for our shareholders and if that means buy three at a time or one at a time, we're okay and heading in that direction. So, as I said, we're approaching scale but we still want to continue to expand mainly driven as well by the MLP advantage that we have and we think that it's great for the MPL unit holders that we have this view and we've achieved our growth targets for the MPL and exceeded them both on growth and yield and so we think we've definitely



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been highly focused on growth for the MLP both in ethanol production and additional downstream assets that may not be within our value chain today as well. We are highly focused on M&A in the MPL centric space as well on more and more terminal assets that fit well with our distribution.

Pavel Molchanov - *Raymond James - Analyst*

All right, appreciate it guys.

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

Thank you.

Operator

We'll go next to Patrick Wang of Baird.

Patrick Wang - *Baird - Analyst*

Thanks good morning everyone. Todd, just going back to the hedging program really quick, in the past we've talked about the increasingly complexity of hedging and associated value at risk as the company continues to grow. Can you just talk a little bit about -- do you have any sort of [target] hedge percentage that you'd like to hit entering the quarter or is the program just purely opportunistic in nature?

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

Yeah, it's funny to think about that because when we would hedge 100 million gallons eight years ago that was a third of our year and today it's a third of a month, so a month. So, obviously it's changed a lot, the complexity has -- actually the complexity is not any different it's just as easy to hedge today as it was back then. It's different because you do have -- you're hedging mainly in financial instruments then just hedging full off in physical sales but overall we watch it very carefully. I mean, we can't -- we probably can't hedge a third of our production right now and feel very confident that the balance sheet could handle it because any kind of blowout in margin structure, you start having \$50 million days, while it's [right way] risk, for the rest of the year you don't want to start making margin calls like that. So we're very -- we've put a lot of analysis behind it. One-hundred million gallons we could do more than that, but we would probably start to limit it at a quarter, 250 million gallons or less, somewhere in that range on a forward-look if we had to do it from a balance sheet perspective.

Patrick Wang - *Baird - Analyst*

That makes sense and then related to that, can you help us size up generally how much you had hedged entering the first quarter? Meaning, what -- completed in 4Q for first Q?

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

Well the first -- you mean coming into the first quarter that we're in right now?

Patrick Wang - *Baird - Analyst*

Yeah.



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

We had a hundred million gallons hedged which is about -- a little less than a third of our production for the quarter so we basically were able to get that off. We wanted to continue on from there and the market just started to break away once we started to build stocks during January.

Patrick Wang - *Baird - Analyst*

Got it, thanks. That's it for me, thanks for taking my question.

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

Yep, thanks, appreciate it.

Operator

We'll go next to Ethan Bellamy of Baird.

Ethan Bellamy - *Baird - Analyst*

Hey Todd, what's a reasonable modeling expectation for the timing and size of dropping the Jefferson Terminal into the MPL?

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

Yeah, so what we want to do is get through open season and get some contracts in place. Once we do that it's our obligation through the agreements in place to offer that to the MLP. I think we would potentially -- if we can get enough contracts in place and have enough scale which we believe is a high probability, we would offer it to the MLP shortly after startup or a little bit before startup, wouldn't we Jerry?

Jerry Peters - *Green Plains Inc. - CFO*

Yeah, absolutely. Yep. Yeah, and I think in terms of --

Ethan Bellamy - *Baird - Analyst*

Say fourth quarter?

Jerry Peters - *Green Plains Inc. - CFO*

Possibly as early as third quarter. Third to fourth quarter. And I think in terms of value, I mean, you can look at other terminal businesses and see EBITDA multiples in the market on those and kind of back into a reasonable dropdown value.

Ethan Bellamy - *Baird - Analyst*

All right, that's helpful. Thank you.

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Operator

We'll go next to Selman Akyol of Stifel.

Selman Akyol - Stifel - Analyst

Thank you, good morning.

Todd Becker - Green Plains Inc. - President and CEO

Morning.

Selman Akyol - Stifel - Analyst

So couple of questions, so first of all in terms of just thinking about the terminal, would you then -- as it gets dropped in, would Phase 2 be on the MLP to build out or would you still retain that up top and then drop it in as Phase 2 cap build out?

Todd Becker - Green Plains Inc. - President and CEO

Yeah, I think the terminal -- the JV itself would be dropped down into the MLP so that the future build out would be done by the MLP. It depends entirely on the status of the commercial arrangements, you know, who's supporting expanding that terminal for other products and what kind of contracts we'd have in place. I think --

Selman Akyol - Stifel - Analyst

Understood.

Todd Becker - Green Plains Inc. - President and CEO

The parent company would certainly be helpful in that regard to make sure that we had the right level of commercial support to build out the terminal.

Selman Akyol - Stifel - Analyst

Got it. And then going back to -- you made some comments about acquisitions terminals for the MLP and I'm wondering, would you be looking at freestanding terminals then, not in conjunction with your production facilities or is there any more color you could shed?

Todd Becker - Green Plains Inc. - President and CEO

Yeah, we've always said, you know, it's a multi-strategy M&A plan for the MLP as well. It starts with the base business of our ethanol production that goes through the tanks that the MLP owns which generates -- is generating quite a bit of stable income. From there we look at -- we looked at the terminals that [Glenstar] owned which were basically well supported by Green Plains Distribution but beyond that we've also said that we will also look at freestanding terminals outside of our normal platform but things that we believe we can add value to. So, if there's a terminal somewhere in the northeast that is interesting for us and we could ship gallons through there and move our -- you know, when you've got a lot, we've got a billion and a half production moving around the United States of gallons that we believe we can have significant impact to acquisitions that we would make downstream even though it could be a multi-product terminal and ethanol is only a piece of it, we believe we can enhance



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profitability even further by moving our own supply through there when we're paying others to handle it for us today. So yes, that is absolutely part of our strategy and the go-forward.

Selman Akyol - *Stifel - Analyst*

Got it, thank you for that. And then my last question, in terms of the 38 million gallons you reference you're holding, how should I be thinking about that in terms of throughput for the MLP in terms of the first quarter?

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

Look as I said, we haven't really made a decision on what will happen with those gallons yet but really just depending on -- and don't forget we're producing at maximum levels and we're not anywhere close to the [Mbc]'s and we're doing all good from that perspective, we just have to wait until the market structure is -- the market structure, it happens so fast when just even recently it went to a full carry structure where it was incenting us to hold it and now the front-end has already gone into flat and even inverted in the cash market.

So, it happens very fast, I can't anticipate what will hold at the end of the quarter but we always hold some gallons anyways. I mean, our average hold at the end of every quarter is somewhere between 15 and 20 million ethanol gallons anyways. So what we've done is we've just topped that up at least in the short term but by the end of the quarter we might get back to our normal hold, it just depends on what the market is telling us. So you didn't see a lot of those gallons anyways.

Jerry Peters - *Green Plains Inc. - CFO*

Just very much from a conceptual standpoint, we don't recognize the revenue on that until we actually deliver the product out of the terminals. So, if we did have something that gapped over the quarter, you might see a slight change in volume throughput but as Todd said, we don't really expect that to bridge over the quarter end.

Selman Akyol - *Stifel - Analyst*

That's what I was looking for. All right, thank you so much.

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

Thank you very much.

Operator

I'll turn the conference back to Mr. Becker for any additional remarks.

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

Yeah, thanks. Thanks for everybody coming on the call, obviously a strong finish for 2016, a bit of a choppy start in 2017 but we still believe overall 2017 is still shaping up much like we've talked about in the past from a supply and demand perspective, we've got work to do in the first quarter as margins are chopping around but as we said, still better than this time last year so with that and strong demand and a stock situation that needs to be looked at from how tight it is in the market, we think there's great opportunities going forward for the company and both from a growth distribution and across our platform perspective; so we appreciate everybody on the call and we'll talk to you next quarter, thanks.

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Operator

And that does conclude today's conference call, thank you for your participation. You may now disconnect.

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