Company Name: Green Plains
Company Ticker: GPRE US
Date: 2019-05-09
Event Description: Q1 2019 Earnings Call

Market Cap: 650.75
Current PX: 15.71
YTD Change($): +2.60
YTD Change(%): +19.832

Bloomberg Estimates - EPS
Current Quarter: -0.308
Current Year: -0.996
Bloomberg Estimates - Sales
Current Quarter: 820.200
Current Year: 3322.800

Q1 2019 Earnings Call

Company Participants

- Jim Stark, Vice President of Investor and Media Relations
- Todd Becker, President, Chief Executive Officer and Director
- John Neppl, Chief Financial Officer

Other Participants

- Kenneth Zaslow, Analyst
- Eric Stine, Analyst
- Pavel Molchanov, Analyst
- Adam Bubes, Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Green Plains Incorporated and Green Plains Partners First Quarter 2019 Results Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions) As a reminder, this conference call may be recorded.

I would now like to introduce your host for today's conference, Mr. Jim Stark. Sir, you may begin.

Jim Stark, Vice President of Investor and Media Relations

Great. Thank you. And welcome to -- to the Green Plains Inc. and Green Plains Partners First Quarter 2019 Earnings Call. Participants on today's call are Todd Becker, President and Chief Executive Officer; John Neppl, our Chief Financial Officer; and Patrich Simpkins, our Chief Development Officer. There is a slide show available and you can find that 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 press releases and the comments made during this conference call and in the Risk Factors section of our Form 10-K, 10-Q, and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

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

Todd Becker, President, Chief Executive Officer and Director

Thanks, Jim. And thanks, everybody, for joining us today. Early yesterday morning, you saw the announcement that John Neppl is leaving us to become the CFO of Bunge. I do want to say to John that we appreciate his hard work, partnership, and dedication over the last few years and wish him the best in his new position. With that change, I'm happy to announce that Patrich Simkins, who is currently our Chief Development Officer and has been with us since

2012, will become Chief Financial Officer. Patrich has a deep understanding of finance and financial strategy and will be a critical partner for us as we continue to roll-out our new initiatives and close out the portfolio optimization plan. Paul Kolomaya will become Chief Accounting Officer for Green Plains. Paul has worked tirelessly for the last 10 years for the Company and he has been here since the beginning and his contributions have been immeasurable to the Company's success.

We reported a net loss of $42.8 million or $1.06 per diluted share. Our financial results continue to be impacted by the weak ethanol margin environment and our first quarter was also affected by the severe winter weather and flooding in the Midwest. Green Plains produced approximately 155 million gallons of ethanol in the first quarter. We again decided to temporarily idle plants as a result of the poor margin environment and the rail service delays also impacted our production. Prior cutbacks overall enhanced our financial performance whereas this time it negatively impacted us by approximately $0.06 a gallon. Consolidated crush margin was a negative $0.08 a gallon for Q1 as we ran our plants at 56% of operating capacity. Our goal is to return to our historical operating -- operating run rate at 90% or greater. This is our target in the second half of 2019 as Madison will not restart until the end of May and should be producing at a higher operating capacity by early July.

Our organic operational cost saving measures now reduces our OpEx per gallon to $0.285 starting June 1. Our announced agreement with ICM will reduce our OpEx per gallon to $0.24 across the platform or as we call it Project 24. But sometime in mid-2020 -- by sometime in mid-2020, squarely placing Green Plains back in the top 10% or 15% of the industry as a low cost producer. It has taken longer to fix the plants that we purchased over the last several years. We believe with the work of ICM that we are almost complete with this effort. Currently, our annual run rate remains at 1.123 billion gallons at 100% capacity. This will be reduced by the sale of any new additional plants. Once our new OpEx per gallon hits, there's only one way to run these plants, hammer down every day. Our effort will not add ethanol capacity to the market, just reduce the cost per gallon of what we are running. I'll go deeper into that later in the call.

The biggest impact from weather was on our cattle feeding operations, which added an average of 24 days of feeding per head. This had the effect of decreasing the rate of gain daily by 15% in the first quarter of 2019 compared to the same quarter last year or said another way, we are keeping cattle in our feedlots a bit longer before they are marketed. We expect a significant improvement in the financial performance of the cattle feeding operation for the second half of 2019, which should keep us on track to deliver the $50 to $60 EBITDA per head or our target for this business. Last half 2019 in the cattle feeding business are very strong for margins as we are hedging these in an effort to ensure the recovery. We recorded breakeven EBITDA per head for our cattle feeding business in the food and ingredients segment for Q1.

As I mentioned earlier and in our release yesterday, this segment was impacted by some of the worst winter weather experienced in 30-plus years and the worst basis level seen for cattle in quite some time and most -- most of this is behind us as we return to normal operating conditions. The weather also impacted rail transportation in Nebraska as a considerable amount of rail infrastructure was impacted by flooding. We were forced to idle some plants because of our inability to ship inventory, This also delayed March shipments of ethanol exports into April as well. All plants are now running close to our three-year historical level except for our Madison Illinois plant, which is going through repair work and should be restarted by the end of May. We decided once and for all to take this plant offline as the sister plant in Mount Vernon operates much better, more consistent, and cheaper cost per gallon. Once back in production, this plant should operate very well. Again this is a -- this is a plant we bought, needed to fix, and now we are almost there. It's also part of our Project 24 program.

We exported approximately 88 million gallons for Q1, which was 20% more than the first quarter of 2018 as Green Plains. The top destination in the quarter were Brazil, India, Colombia, Korea, Saudi Arabia. Green Plains Partners reported $13.5 million of adjusted EBITDA with a coverage ratio of 1.01 times for the first quarter. As Green Plains Inc. reduces OpEx per gallon and will run at capacity, it is very beneficial to the unitholders. We continue to search for growth opportunities to diversify revenue and earnings going forward. The agribusiness and energy services segment reported $5.3 million of EBITDA for the quarter, which was down because of lower ethanol and distillers grains production in the first quarter as well as less opportunities in our merchant businesses. A bright spot for Q1 is achieving a 21% reduction in SG&A. This expense was down over $5 million year-over-year and we continue to look for ways to reduce controllable expenses, but I'm certainly pleased with the progress on this front.

We continue to push ahead with planning our portfolio optimization plan, which includes selling additional ethanol plants, taking our cattle feeding business off balance sheet, and once completed or near completed supporting and buying back Green Plains stock. While these efforts are taking a little longer than we indicated in February, we believe the outcome is still on track. We have several interested parties on both transactions and I feel like we will make very good progress this quarter. We will also review the dividend going forward and any change that would be made will be accompanied by a supportive buyback program as well.

Now I'd like to turn the call over to John to review both Green Plains Inc. and Green Plains Partners financial performance. Then I'll come back on the call to discuss the outlook for 2019 and provide a more detailed update on our OpEx equalization and protein technology initiatives.

John Neppl, Chief Financial Officer

Thank you, Todd. Green Plains Inc. consolidated revenues were $642.3 million in the first quarter, down $403 million or 39% from the first quarter a year ago. The decrease in revenue was driven primarily by the disposal of three ethanol plants and the sale of Fleischmann's Vinegar during the fourth quarter of 2018 along with lower run rates at our remaining plants. Our consolidated net loss for the quarter was $42.8 million versus a net loss of $24.1 million a year ago. As Todd mentioned earlier, our Q1 financial performance was affected by weak ethanol margins and severe weather impacting our cattle operations. We recognized a tax benefit of $14.4 million in the first quarter of 2019 resulting in an effective tax rate of 27%. EBITDA for the first quarter was a negative $18.7 million compared with a positive EBITDA of $23.1 million for the first quarter last year.

SG&A decreased $5.4 million over 2018, primarily due to a reduction of controllable expenses and the asset sales completed in the fourth quarter of 2018. Interest expense decreased $8.3 million to $14.4 million for the quarter compared to last year. This was driven primarily by paying off the term loan B in the fourth quarter of 2018 offset in part by higher LIBOR rates and a higher debt balance at our cattle feeding operations. CapEx for the quarter was about $11 million with approximately $4 million of maintenance capital for the ethanol production and cattle operations and an additional $7 million of growth capital, primarily for the high protein feed project in Shenandoah. On Slide 8 of the investor deck you will see our balance sheet highlights. We had $373 million of net investment in cash and working capital at the end of the first quarter compared with $427 million at the end of 2018.

Gross working capital and related borrowings decreased slightly in our grain distilleries [ph] lines, partially offset by an increase in our cattle (technical difficulty). The new accounting change for leases took effect January 1st, 2019. At March 31st, the Company balance sheet includes operating lease right of use assets of $56.5 million with an offsetting current and long-term operating lease liability of $17 million and $42 million, respectively. Most of this is attributable to Green Plains Partners, which was $36 million of the $56 million asset. Our liquidity position at the end of the year was strong with $273 million in total cash along with approximately $407 million available under our working capital revolvers. This amount does not include availability of $65 million of the credit facility of the partnership. For Green Plains Partners, we reported adjusted EBITDA of $13.5 million for the quarter, which included a $4 million MVC payment from Green Plains Inc.

The adjusted EBITDA was $3.6 million lower than the first quarter of 2018. The partnership had 156 million gallons of throughput volume at its ethanol storage assets, which was down $142 million -- 142 million gallons or 48% in the first quarter of 2018. Distributable cash flow was $11.4 million for the quarter, $4.1 million lower than the same quarter of 2018 reflecting the sale of the three assets in the fourth quarter last year and reduced ethanol production at Green Plains in the first quarter versus the prior year. The distribution of $0.475 per unit declared on April 18th resulted in a coverage ratio of 1.01 times for the first quarter. On a 12-month basis, adjusted EBITDA was $62.4 million, distributable cash flow was $54.4 million, and declared distributions were $53.5 million resulting in a 1.02 times coverage ratio.

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

Todd Becker, President, Chief Executive Officer and Director

Thanks, John. So, we're now in the ninth month of what we believe is the longest negative margin environment the ethanol industry has ever witnessed. The solution remains the same as we have prescribed -- as we have prescribed, we need a higher ethanol demand driven by stronger exports and higher blending levels in the United States. We are still tracking to export approximately 1.7 billion gallons of ethanol in 2019. A trade resolution with China could easily add an additional 400 million gallons of demand annually and much greater possibly of export volume. While there are certainly headline risks to what is happening on the trade negotiations, we do still strongly believe a positive outcome is coming as it relates to ethanol. We have also seen other opportunities start to open up in other parts of the world. Whether it's the EU, Brazil, Japan, or Mexico; demand remains strong for our product globally.

We stand behind our E15 year-round demand growth of at least 200 million gallons of annualized incremental demand as only the starting point. Once past hopefully June 1st of this year, the real test will be 2020. I am in the camp of a very strong E15 demand base coming. This will be the first time in history our industry will have access on day one of more than 7 billion gallons of new ethanol demand. It's our job as an industry to go after that and get the job done as our cost competitiveness is very favorable to gasoline even with lower RINs as it looks to stay that way with low corn and soy prices sticking around for a while. The EPA took comment on the E15 RIN reform rule through last Monday and are on track to finalize the rule to allow year-round sales of E15 by June 1 or the start of the summer driving season. We still believe very little will be passed by this Congress so the risk of any anti-ethanol legislation is extremely low.

As we approach 2020 and the Presidential primary heats up, we will engage with candidates on pro ethanol policy and we strongly believe the President will reaffirm his support for a strong RFS. So going forward, our focus is to execute on things we can control. Number one on that list is to complete the portfolio optimization plan as I updated to you earlier in this call. As our stock trades at a discount to book value, we have constantly proven the mismatch between public and private market valuations with very little or no credit. One of the ways we can adjust this is to support the stock and as the portfolio optimization plan finishes up with asset sales we are working on, myself and our Board understands the need to do this. Number two is to accelerate our OpEx equalization plan. While we have developed our own plan in-house, we've compared notes with ICM and decided to collaborate on the final aspects of it.

With that said, we have engaged ICM to take over and complete our project of lowering our operating costs at our non-ICM plants. This is an exclusive technology relationship limited to Green Plains facility -- facilities for a time period of several years after completion. Again we are not interested in creating new gallons, just making what we have cheaper to operate. ICM's processing technology, as you know, is the gold standard in the industry and we have complete confidence that they will have the ability to achieve our targeted results in less time and for lower cost than if we had gone it alone. We have signed the LOI with them to perform this work across our entire platform starting with our Wood River, Nebraska plant. The construction work will be completed by mid-October. We estimate the cost of this location will be approximately $10 million to $11 million or $0.09 per gallon of capacity.

We believe this upgrade will generate $0.09 to $0.10 of operating expense cost reduction at our nine -- at our non-ICM plants based on a 90% operating run rate. So for this example when we complete it -- when we complete this, Wood River OpEx per gallon will be $0.22 per gallon or equal or better to our best ICM plants. Once the OpEx equalization project is completed by the end of 2020, we will have a platform average of $0.24 OpEx expense per gallon after the four commodities of corn, natural gas, ethanol, and distillers grains; much how we've laid it out to you throughout the last 10 years. We anticipate a little over a year payback on this investment and some of this expense will be part of our normal CapEx program anyways. We continue to make progress in the high protein feed technology installation at Shenandoah. We're currently reviewing additional locations and alternative technologies as well with a plan to establish high protein production capabilities across our entire platform by the end of 2022.

While there is a possible -- possibility to break ground on an another unit this year, it is most likely a 2020 event before selection and engineering can take place so beyond the current project. We see limited capital allocation for this for the remainder of the year on this -- on this initiative as we want to get Shenandoah operating. Let me reiterate one thing. The economics outlined of $0.12 to $0.15 a gallon margin from this technology not only remain intact, but we have seen even better opportunities as this product has different amino acid and other profiles in high protein soy meal and therefore has seen values much higher in some markets for the high protein cornmeal we will produce. We believe the market is also very deep for this product and will not be saturated if rapid adoption took place, which by the way is unlikely to happen in the industry in our opinion.

When we think about combining the cost savings from our OpEx equalization plan and the potential for $0.12 to $0.15 a gallon minimum margin uplift generated from high protein feed technology, we can and will substantially improve the earnings power of this platform. These are all steps needed to reclaim low cost producer status and be able to navigate through just about any margin environment. So for those who followed us for a long time, you would have heard me say on a number of occasions that the ethanol industry will go to variable cost at times and the low cost producer will win. So in conclusion, while the market remains weak, several things can turn this very quickly including China and E15. Our OpEx equalization plan will put us in a position to again compete with the best in class and protein will drive positive returns long term.

If you recall, we are term debt free so we have plenty of optionality and this is the first time we are term debt free since the beginning of the Company in 2008. We are focused on getting more capital in through portfolio optimization plan, which can be deployed not only to support our initiatives, but also to support our undervalued stock. Stick with this Company a bit longer as we concentrate our efforts squarely on these initiatives.

So with that, I want to thank you for joining our call today and I'm going to open up the Q&A session.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from Ken Zaslow with Bank of Montreal. Your line is now open.

Kenneth Zaslow, Analyst

Hi, good morning, guys.

Todd Becker, President, Chief Executive Officer and Director

Hi, Ken.

Kenneth Zaslow, Analyst

Just two questions. One is can you talk about the costs that are associated with your improvement of your facilities and what's the return associated with that?

Todd Becker, President, Chief Executive Officer and Director

That's pretty easy. So, it's about $0.10 a gallon so for our -- $0.09 to $0.10 a gallon. So for our 50 million to 60 million gallon plants, the costs will be $5 million improvement and for our 100 million gallon plants or bigger, it will be about $10 million CapEx. The recovery of that is one year or less in most cases. What -- really what it's driven by, Ken, is that the energy cost in our non-ICM plants are significantly higher. But what we're doing with this exclusive arrangement with ICM on technology is that would drive a large part of the savings and from there, you -- once you go right down all of our OpEx savings, it's a bunch of different areas. But it's something that we've developed in-house initially. We brought it to ICM, they had a solution as well and together -- we worked together to develop the final version of this and the great thing is we have a multiple year head start against any other deployments after we're done with the final upgrade.

Kenneth Zaslow, Analyst

Okay. And then the second question is if there was a US-China deal to be signed, can you frame right now where margins are obviously negative, how much that would impact and then the parameters to which you think that would increase from that and what are the key drivers? And I'll leave it there.

Todd Becker, President, Chief Executive Officer and Director

So Ken, margins right now are slightly negative, you are correct. But so what we did is we went back and looked at pre-trade war levels with China for 200 million to 300 million gallons and looking at that related to where the margins were and where they are today, where stocks are and where they are today, and so on. And so our belief is before this trade war and before we really saw gallons come out from multiple different factors, margins were somewhere between kind of $0.15 and $0.22 a gallon right before the drop and you could see it right on. Literally you could see the start of the trade war and what it did to put our market in a bit oversupply position. And so our view is we will go back at minimum to those type of levels and it's really going to come down to the discipline of the industry. And what we're seeing is there's definitely more discipline in this industry today driven by a few factors, which is obviously the cash burn that the industry has faced depending on where you are in the cost curve and more so I think people are really reluctant to say let's just push a bunch more gallons into the market as an industry.

So our view is, again I reiterate, prior to the trade war, margins were positive in that $0.15 to $0.25 a gallon range depending on the plant and we think we could go back there pretty easily. Right now we're just a little bit over last year's stocks. Last year's margins were better than they were today, which is something that obviously we're looking at. I think the corn market is moving in favor of the ethanol industry and ethanol remains strong from a demand standpoint as we go into summer driving season. So I think there's a few things that are lining up, but I think overall it is positive. And if you overlay with that, Ken, as we kind of look at the next 12 to 18 months, the fact that our OpEx per gallon last quarter because we slowed down so we had negative absorption was $0.36 a gallon, which is awful. Last year's OpEx was about $0.32 a gallon, which was more like a normal run rate that we've been experiencing as we bought these high priced plants. So if you take that and overlay the fact that we are highly confident with a high degree of confidence that by this time next year and a little after that our OpEx will start going towards $0.24 a gallon, you could see the opportunity that Green Plains has in a market like that. I know that's a long answer for such a short question, but...

Kenneth Zaslow, Analyst

No, I appreciate it. Thank you. I'll get back in the queue.

Todd Becker, President, Chief Executive Officer and Director

Thank you.

Operator

Thank you. And our next question comes from Eric Stine with Craig-Hallum. Your line is now open.

Eric Stine, Analyst

Hi, Todd. Hi, John. Hey, just -- so just sticking with the plant investments. I know last quarter it sounded like it was something that you were going to take a little bit of a measured approach and now with the ICM agreement, clearly you're moving full speed ahead. Just some thoughts there. I mean is this your thought process? Is it because you're -- the same reason you're going to get back up to near maximum plant utilization that you're just tired of waiting for market improvement and want to drive the cost down? Is it that ICM you think in partnering with them you can do it better and quicker or feeling better about the outcome of the portfolio optimization program? Just what combination of that or what went into your thought process to speed that up?

Todd Becker, President, Chief Executive Officer and Director

Well, I think it's like anything. Protein -- if you look at protein, I'm going to start with protein, I know we're going to get back to OpEx. But that technology really didn't exist five years ago or three years ago in any kind of way, shape, or form that we rolled out. Now relate that to OpEx equalization, it didn't really exist to do these things in an engineered fix in any large manner, what we would consider kind of when we bought these plants. And so, we had to do a bunch of things first to these plants before we do the final stage of this upgrade. And so we bought plants anywhere in the last 10 years from $0.30 to $1 a gallon, replacement still is $1.50 to $2.00 a gallon. So, we have gotten to this point to do the final stages. What we did, internally we engineered that final fix and we thought to ourselves let's go and talk to the -- what we consider best in class in the industry and compare notes and say is there something we all can do together number one, to accelerate it; and number two, to be very confident that what we're going to do will work.

Now they have done similar things not in total to other plants, but this will be the full retrofit fix in certain areas that will really drive -- it's very easily measurable to drive our OpEx down. And so our view and we verify this with ICM is that if we're at $0.24 a gallon, it will put us squarely back in the top 10% or 15% of this industry and that's any technology, any size. And so that's going to be a game changer we think for our Company, which is when we have a 60 million gallon plant that can be competitive with a 100 million gallon plant or we have a 110 million gallon Delta-T in Wood River that's going to be more competitive than our Obion plant, it really changes the way this Company can operate going forward. And so at that point, I think it's squarely puts us in a really good position. So it's really coming down to we sold $600 million worth of assets approximately. We paid off $500 million worth of debt.

We have -- we are optimistic that we're going to continue to optimize our portfolio and we do have to do it and these plants are 10 years old and 15 years old and it's time really to kind of do the final fix to get them there. And it just isn't that relatively speaking to the amount of money we've invested and the return, they will become self-financing after a little while anyways. And so -- and the return on this is one of the best things that we can do for our shareholders. But more so, getting to $0.24 a gallon squarely puts us back into low cost producer status and that's really where you have to be in this industry going forward.

Eric Stine, Analyst

Right.

Todd Becker, President, Chief Executive Officer and Director

We can't wait any longer.

Eric Stine, Analyst

Got it. That's very helpful. Maybe last one for me and you may have said it and I missed it. Just you gave what you think the incremental volumes could be if there's a trade deal with China, but did you give that for E15 provided that the rule making is in place by June 1st?

Todd Becker, President, Chief Executive Officer and Director

So our view -- my view and again I am much more bullish E15 than I think others and my counterparts are in the industry at this point and outside the industry when analysts look at it. I'm extremely bullish of the opportunity. I think we could be in an aggressive environment, we could have 1 billion gallons of demand next year for E15 and I think we're well set up to do that. We'll have 2,000 stations by the end of this year, but I think there's other stations that want to go. Our view is there's 10,000 stations in the waiting. And so if you kind of extrapolate that, that can move very fast and I'm going to tell you why it's going to move very fast because ethanol is a significant discount to gasoline and there is still RIN value. So if you're sitting there as a retailer, why wouldn't you go after $1 a gallon on 5% more blending. And what we're seeing even in the Omaha market Unleaded 88 is selling out at certain convenience store locations -- at certain C-store locations.

Because number one, when you buy a car today (technical difficulty) come off the production line with an E0 to E15 cap. So now your new car, which was $17 million a year last year, you know what car sales were. When your new car -- when you get a new car in the E9 to E15 and then you pull up to an Unleaded 88 station or even an E15 station, you have another option and quite frankly there is really no mileage drag. So basically for $0.05 less a gallon, that's what you're going to buy. And so we're starting to see evidence that with the OEMs coming out with these E0 to E15 caps, this is the third year or fourth year of this happening, and now we're up to approximately 90% of new cars having this that take gasoline, it's very exciting. And so if you couple that with China and you couple that with E15 for next year, there is some really interesting potential in this market and I think we will finally be able to start to reclaim a good march forward for margin structure and then it's going to be up to the industry not to -- clearly not to overproduce and oversupply.

But I think we want to set ourselves up for that position to be in at $0.24 a gallon and Project 24 with potentially 1 billion gallons of E15 and China could take up another 1 billion gallons as well. I mean I don't know that -- I'm not -- I don't know if they're ready for that yet, but our view is they could easily take 200 million to 400 million gallons right off the bat and we have -- it is confirmed that or not confirmed, but we have heard from the people that are close to these negotiations that ethanol is on the list and has been a topic of discussion. So, we're very enthusiastic about that. The noise that we hear about the trade war that's -- for us, that's something we're going to have to get through, but in general we still believe there will be something done.

Eric Stine, Analyst

Okay. Thanks a lot.

Operator

Thank you. And our last question will be from Pavel Molchanov with Raymond James. Your line is now open.

Pavel Molchanov, Analyst

Thanks for taking the question. We've covered a lot of ground vis-a-vis federal issues, the E15, and China trade. I wanted to ask about Washington State and the low carbon fuel standard where they seem to be very close to approving that. Given that California's LCFS has had some kind of mixed impact on corn ethanol, I'm curious what you make of what Washington State is doing on that front?

Todd Becker, President, Chief Executive Officer and Director

Yes. So we really as growth energy -- we belong to growth energy, we're working on that with the local lawmakers. So, our view is obviously the LCFS has been going on in California. We have several plants that can ship into California today. In fact we just sold and we continue to sell more that meet the standard. And as we continue to drive energy costs out of and energy use down in all of the other plants, we will start to have more and more plants meet -- have the ability to meet the standard for the time being. So, our view is obviously they're going that direction, we'll see if it gets to conclusion. It's something that we're working with them on.

It's -- we're already low carbon fuel and I think what they are realizing in California or in Washington or in New York is the fact that this is one of the only alternatives that they have for fuel and E15 is something that I think you're starting to see them embrace this fuel as one of the options they can use to help satisfy their targets and their emissions targets. Obviously electrification is some of the motivation for the West Coast states. I'm looking at that, but our view is ethanol will still play a role and E15 is really what I believe will be a critical driver in helping them achieve their targets.

Pavel Molchanov, Analyst

Okay. That's helpful. Question as it relates to GPP. It has been close to two years since the last dropdown and obviously you guys are in ethanol divestiture mode rather than acquisition mode. Any sense of when the next dropdown into the partnership might come and if it's presumably not ethanol related, what it might be?

Todd Becker, President, Chief Executive Officer and Director

So, first let's talk about JGP. So, JGP obviously we started that terminal up at the beginning of a trade war, right, so it's an export terminal. So, we wanted to wait until we kind of got through this time period. We have been using it as a company. We're happy with how it's operating and we just want to wait until kind of some sort of resolution or vision of a resolution is going to happen and then we'll get ready to drop JGP and we started to work on that process now. The Board -- GPP has the first right for that drop before we do anything else and our view between as a JGP or as a GPP shareholder is imminently in the next quarter or maybe a little bit longer. Our goal is to get JGP dropped into GPP, a lot of initial steps. But that's the first step. The second step is, as you know, we have tried to do acquisitions. We tried to do one last year. We spent a lot of time with the government and they just would not give us approval.

So, we spent a lot of time getting a terminal acquisition, mainly fuel terminal; liquid fuels, transportation fuels, non-ethanol related and we just couldn't through the competitiveness because we had partners involved as well. So, we continue to actively seek fuel terminal -- liquid fuel terminal type acquisitions that we could make into GPP. While certainly not much has happened, our goal is still to continually support that. We believe it's still an incredible growth platform for us. Nothing has changed. Not a lot of transactions have taken place in terminals. But we believe as we kind of come out of this uncertainty around trade and everything else going on, we will, -- we continue to actively seek acquisitions and we believe that sometime in the next year we will be able to accomplish one. So, we're not at all thinking that GPP is a stranded MLP. We absolutely believe it's something that we're going to focus time, energy, capital, and effort on and the first step will be getting JGP dropped into there.

Pavel Molchanov, Analyst

I appreciate it.

Todd Becker, President, Chief Executive Officer and Director

Thank you.

Operator

Thank you. And our final question comes from Laurence Alexander with Jefferies. Your line is now open.

Adam Bubes, Analyst

Hi. Adam Bubes here on for Laurence today.

Todd Becker, President, Chief Executive Officer and Director

Hi, Adam.

Adam Bubes, Analyst

I was wondering. -- Hi, how are you guys? I was wondering for protein investments, what kind of scale should we expect and also if you could give any color on potential ROIC targets?

Todd Becker, President, Chief Executive Officer and Director

Potential, what was the last question? The potential what?

Adam Bubes, Analyst

Return on invested capital targets.

Todd Becker, President, Chief Executive Officer and Director

Okay. So for us looking at protein depending on the different technologies that are available and there it's evolving fast, I will tell you that right now. We're evaluating several new technologies that we didn't even evaluate last year. So from our standpoint, the current goal of our protein technology investment is somewhere between 25% to 35% IRR target and we believe we can achieve higher than that based on a baseline of high pro comparison to distillers grains from a profitability standpoint. We believe that there will be alternative technologies that will evolve that will drive the cost of this lower, but not low enough where we believe that you're going to start to see rapid adoption at 200 ethanol plants because it's still an expensive capital project. Our goal in the next several years is to roll this out throughout the platform.

First step is to show the market and show everybody that follows our Company how profitable this project is and what it does to increase the margin at Shenandoah in a consistent manner. And that's why we're already starting to look at 2020 as a target to break ground or possibly late 2019 on another unit. But it's going to be -- it's going to be definitely a rollout that is going to take some time. We wanted -- we still want to get portfolio optimization finished from the standpoint of looking at cattle and ethanol plants. And then at that point, we also believe there's opportunities to then besides obviously what we talked about on debt reduction and stock buybacks, which we've started to achieve those, to allocate capital to this. But we are being patient, it's not going to all happen at once.

But when completed, we believe long term it will add $0.15 to $0.20 a gallon and the cost is similar to what we've outlined in the past and we believe will come down slightly from there as we drive the rollout and get better at building these things and look at different technologies. So, it's going to be very disciplined to make sure we accomplish everything else first. But what we're doing and what we're seeing with this product is making us much more optimistic and certain of its ability to contribute to the earnings stream of Green Plains going forward because it is a -- it is moving into a very high value market that is deep on demand and needs products like this. So, everything we've seen continues to validate continue moving forward with this product and project.

Adam Bubes, Analyst

Great. Thank you. That's extremely helpful. And then I just have one last question, I was wondering if you're seeing any signs in this environment for smaller farmer co-ops curtailing production?

Todd Becker, President, Chief Executive Officer and Director

Yes. I think what we're seeing is when you look at production rates sitting here in this low 10 to 10.20 to 10.30 kind of moving up and down 10 or 20, is that our belief is the industry over the last six months has definitely burned some cash. Obviously some haven't, but some have. We think that in -- in the smaller plants or smaller operators, some of that was financed with working capital lines and now have to be converted to term lines. So, we think that there is a -- there's some level of cash conservation taking place, which we're starting to see through production numbers. Interestingly enough while we're still -- while we are increasing our production rates, we are not seeing that throughout the weekly EIA data because we believe that some of those that have burned cash are being much more conservative on pushing too hard to operate at this point and we think that's probably the right move from our standpoint.

Like we said by June 1 with our first round of OpEx equalization, we will be at $0.285 a gallon across our platform, which will be the lowest probably in seven or eight years that we've been able to achieve since we started our acquisition. And by this time next year and within three or four or five months after that, we should be at $0.24 plus platform. That is allowing us to kind of return to a normal operating company and really spread our costs across more gallons and start to get back into an advantaged position. Still hard to solve for negative margin environment, but it certainly puts us in a better position to retain our very strong liquidity position and look at other opportunities going forward.

Adam Bubes, Analyst

Great. Thank you a lot.

Todd Becker, President, Chief Executive Officer and Director

Alright. Thank you very much.

Operator

Thank you. This concludes today's question-and-answer session. I would now like to turn the call back over to Todd Becker for any closing remarks.

Todd Becker, President, Chief Executive Officer and Director

Yes. Thanks, everybody, for coming out. Obviously a lot to discuss. We're very excited about Project 24, which we think is a foregone conclusion that we'll be able to get there. We wouldn't say that if we didn't think it. We are still working hard on our portfolio optimization plan. We are engaged with several parties in each of the aspects of that plan today and feel like we'll make good progress this quarter. Obviously since we started the plan, the degradation in the margin environment has slowed it a little bit, but we have great assets that we think we can still monetize for our shareholders, provide a few more of these wins, and then allocate capital correctly as we outlined on this call. And so between that and our validation of protein, China and E15, there's a lot going on and any and all of those could hit; it would be a very different environment and that's kind of what we're looking forward to. So, thanks for coming on the call and we'll talk to you guys next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program and you may all disconnect. Everyone, have a wonderful day.

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