Company Name: Green Plains Inc
Company Ticker: GPRE US
Date: 2015-07-29
Event Description: Q2 2015 Earnings Call

Market Cap: 907.75
Current PX: 23.92
YTD Change($): -.86
YTD Change(%): -3.471

Bloomberg Estimates - EPS
Current Quarter: 0.460
Current Year: 1.285
Bloomberg Estimates - Sales
Current Quarter: 803.500
Current Year: 3074.333

Q2 2015 Earnings Call

Company Participants

- Jim Stark
- Todd A. Becker
- Jerry L. Peters
- Carl Steve Bleyl

Other Participants

- Adam Samuelson
- Farha Aslam
- Jeffrey Michael Schnell
- Craig Edward Irwin
- Edward George Westlake
- Sandy H. Klugman
- Tyler L. Etten
- David L. Rose
- John Michael Segrich
- Majid Khan
- Eric Seeve
- David Cristopher Driscoll

MANAGEMENT DISCUSSION SECTION

Operator

Good day everyone and welcome to the Green Plains Second Quarter 2015 Financial Results Conference Call. Today's call is being recorded. At this time, I would like to turn the call over to Jim Stark. Please go ahead.

Jim Stark

Thanks, Noah. Welcome to our Second Quarter 2015 Earnings Call. Participants on today's call are Todd Becker, our CEO; Jerry Peters, our CFO; Jeff Briggs, our Chief Operating Officer; and Steve Bleyl, who is our Executive Vice President of Ethanol Marketing. We have posted a slide presentation for you to follow along with and you can find that presentation on the Investor page under the Events & Presentations link on our website.

During this call, we will be making forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in yesterday's earnings press release and the comments made during this conference call and the risk factors section of our Form 10-K and Form 10-Q and other reports and filings with the Securities and Exchange Commission. You may also refer to page two of the website presentation for information about factors that could cause different outcomes. We do not undertake any duty to update any forward-looking statements.

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

Todd A. Becker

Thanks, Jim, and good morning everybody and thanks for joining the call today. The second quarter was certainly better than the first as we experienced an improved margin environment for the quarter. While certainly not as strong as last year, we were happy to see a nice expansion in the margin structure. Along with our other segments, the company's EBITDA was close to $40 million including corporate costs, historically a mid-cycle type number for us. More specifically for the second quarter, we reported net income of $7.8 million or $0.19 a share. We generated $16.4 million of operating income from our corn oil, marketing and distribution and agribusiness segments. And our ethanol segment generated $18.2 million or $0.13 EBITDA per gallon in the second quarter.

Our daily average ethanol production rate was 93.9% of capacity, producing 238.7 million gallons of ethanol in the quarter. We continue to run for ethanol yield while the second quarter was 2.84 gallons per bushel of corn compared to 2.81 for the second quarter of 2014. We see less variability as we slowdown and speed up than in the past as the investments we have made in yield improvement should stabilize higher yields in the future. New crop corn is always the most variable time for yield. Other than that, the longer-term yield trend remains intact.

We also produced 631,000 tons of livestock feed or distillers grains, and 62.4 million pounds of corn oil during the quarter. We achieved a record 0.74 pounds of corn oil per bushel of corn for our platform. We continue to make process improvements across our platform and extracting more oil out of the corn kernel is showing results. We did experience some improvement in distillers grains market pricing in Q2 as China re-entered the market in the quarter, but forward export sales have slowed down to them. DDGS pricing tends to be softer in the summer when herds are out in pasture. Even with that said, with the recent break in corn prices, distillers' values held in well as the industry starts to think about summer maintenance schedules and slowdowns.

Export grade ethanol shipments accounted for 13.5% of our second quarter production, which was significantly higher than the 2.5% we sold in the same quarter in 2014. We continue to see strong export interest for U.S. product, both in the spot and forward markets. With industry-wide exports of 377 million gallons of U.S. ethanol through the end of May, we continue to believe that the U.S. ethanol industry will export between 800 million gallons and 1 billion gallons this year. To give you another example, 18% of our July production and 21% of our August production is slated for export corridors. The Q4 2015 book is still developing, but interest is very strong. In fact, we have over 8% of our February 2016 production sold to export customers.

So with all that said, the supply and demand balance for ethanol remains intact, and when combined with the positive blending economics and a corn market that is tempering back to the low end of the range, we are starting to see some improvements in the margin structure for the remainder of 2015.

So now, I'll turn the call over to Jerry to review our second quarter financial performance. Then I'll come back to further discuss our outlook for the remainder of the year.

Jerry L. Peters

Thanks, Todd, and good morning, everyone. Our consolidated revenues were $744 million in the second quarter, which was down $93 million or about 11% from a year ago. That was driven by lower commodity prices for both ethanol and distillers grains in 2015 versus 2014. Volumes of ethanol sold for the quarter were down slightly about 1.3% to 300 million gallons, while the average realized price per gallon was 23% lower than last year's second quarter.

Our consolidated operating income for the quarter was $24.4 million versus $58.9 million a year ago, primarily as a result of the weaker ethanol margin environment and lower prices for corn oil in the second quarter of 2015 compared to a year ago. Revenue per pound of corn oil was off 22% as the large soybean harvest has put pressure on prices compared to last year.

The ethanol production segment's operating income was $18.2 million for the second quarter compared with $30.1 million in operating income last year. Before depreciation expense, ethanol margins were $31.7 million or $0.13 per gallon in the second quarter 2015 compared to $43 million or $0.18 per gallon realized in the second quarter of 2014. As Todd said, we generated $16.4 million of non-ethanol operating income for the current quarter, which was flat to the second quarter 2014.

Corn oil production volumes were higher generating nearly 62.4 million pounds in the quarter compared to 58 million pounds a year ago. Our corn oil yield improved to 0.74 pounds per bushel of corn as we continue to maximize our corn oil extraction processes. As I mentioned earlier, prices realized for corn oil were weaker than a year ago following other commodity prices overall.

We experienced about $1 million improvement in operating income in our agribusiness segment due to margins on higher volumes of grain storage in the quarter. Interest expense was higher by $900,000 in the second quarter of 2015 compared to the same period in 2014 due to higher average debt balances outstanding.

Income tax expense was $5.2 million for the three months ended June 30, 2015, compared to an expense of $17.8 million for the same period in 2014. EBITDA, which is earnings before interest, income taxes, depreciation and amortization, was $39.3 million for the second quarter of 2015 compared to $74.5 million for last year.

We invested about $14 million in capital expenditures in the second quarter of 2015. The majority of the capital spending continues to be on our 100 million gallon ethanol production expansion and our grain storage expansion projects.

On the balance sheet, we had a couple of important developments that are highlighted in the press release. First, we refinanced our term debt at the remaining six ethanol plants into our existing Term Loan B structure. We raised $120 million through an add-on to our existing six-year notes in an offering that was heavily oversubscribed. The proceeds eliminated the AgBank debt we had at the separate ethanol subsidiaries. This was something we had always planned to do to simplify our capital structure and reduce our mandatory amortization going forward. We closed the second quarter with $452.8 million of term debt, down from $500.2 million a year ago. Net term debt was approximately $36 million at the end of the second quarter.

The second development related to our capital structure was the completion of the IPO of Green Plains Partners on July 1, 2015. We dropped our downstream ethanol transportation and storage assets into the partnership that is now publicly traded on the NASDAQ. In the IPO, we sold 11.5 million common units that represent limited partner interest at a price to the public of $15 per common unit. The partnership received net proceeds of approximately $158 million from the offering, of which $155 million was distributed to Green Plans, Inc. So after the offering, Green Plains owns a 62.5% limited partner interest and a 2% general partner interest in the partnership and the public owns the remaining 35.5% limited partner interest.

As I said, the IPO closed on July 1, so the proceeds are not included in our June 30 balance sheet. You will begin to see the impacts of the IPO in our numbers next quarter. Since we continue to control the partnership, Partners' results will be reported on a consolidated basis in our financials, with the partnership unitholders' share of the investment and earnings reported as a minority interest in our consolidated operations.

Todd will discuss our strategy with regard to Green Plains in more detail, as I now turn the call back over to him.

Todd A. Becker

Thanks, Jerry. A major accomplishment for the company and its shareholders this quarter was the IPO of Green Plains Partners, as Jerry mentioned. We basically spun our terminal asset to both Blendstar and the plants along with our railcar fleet into a new entity that qualifies as an MLP. We view this transaction as strategic and critical to the growth of our downstream business. The MLP equity market will allow us to finance our downstream ethanol storage and transportation more efficiently through this favorable and well tested market. We firmly believe this structure will benefit both the partnership and Green Plains.

The one business unit that has had the slowest growth over the last seven years was our downstream business. While we were certainly happy with the downstream assets we've built and acquired, it was hard to compete for acquisitions with other MLPs. This new entity will allow us to accelerate our growth plans in that segment of our business.

As we have told many of our new investors, we are the base load volumes in many terminals with many products, which allows us to view these assets in a distinctly different way from an acquisition standpoint than many of our MLP competitors. In addition, by carving out a base level of stable cash flows from the ethanol value chain, the MLP can certainly be used to revalue a part of the ethanol facility. We believe this is a good start to revaluing our assets over time, and as the first MLP based primarily on ethanol cash flows, we are very proud of this accomplishment and it puts the company in a very strong position for growth and financial flexibility.

Post IPO, total cash is approximately $575 million and our ethanol plant debt and debt service is the lowest it has been in our history. Finally, we believe that we can acquire and compete for additional ethanol plants using this improved cost of capital structure even at the current market for the assets.

We continue to make progress in our 100 million gallon ethanol expansion project. As we look out into the future, we see global ethanol demand outpacing ethanol supply by mid-2017, which is the main reason for this project with another 100 million gallons of expansion capacity to follow in late 2016, early 2017. Investing $65 million or $0.65 a gallon for the initial 100 million gallons is accretive to Green Plains' shareholders and to Green Plains Partners' unitholders.

You've heard me talk about the cyclical nature of the industry that we participate in. While the current environment may not need more production gallons today, building out these projects takes time and want to be ready to meet the continued demand growth in the marketplace. In our agribusiness segment, we are well prepared for a big harvest push this year as all of our storage expansion projects will be complete and ready to receive grain. Since we announced this initiative, we have added over 20 million bushels of additional storage located adjacent to our ethanol plants in the last few years. Our 5 million bushel building in Obion will be taking grain this harvest, which is very exciting for the business. Stay tuned for more expansions around this strategy.

While we had a slow start to the marketing and distribution segment, we expect a stronger finish overall in our merchant and trading platform in the last half of the year. We now have 22 distinct merchant businesses operating on the platform today, and expect to continue to grow from here.

Now, let's talk a bit about ethanol margins. The curve has expanded over the last eight days for the remainder of the year, and we continue to have a positive view from here based on run rates, stocks and demand. For that reason, we have not hedged very much for the remainder of the year yet. Although we were able to hedge most of the second quarter early, the third and fourth quarter was a bit elusive. Historically though, as we get to this point during the year, the margin visibility is often developing for the remainder of the year. We do believe that ethanol demand will continue to be strong as we finish out 2015, and the margin expansion will continue, as evidenced by a continued move today. We will adjust our run rates accordingly based on profitability, and we have done that over the last 20 days or so. We also have a full slate of maintenance and shutdowns scheduled for this quarter as well.

While the industry is producing more, overall stocks are not growing as demand domestically and globally remain strong. We are in a state of equilibrium and it seems to be teetering in our favor. We continue to make great progress on E15 initiatives as major retailers are moving in this direction. From an export perspective, even with the move in the Brazilian currency, our product remains the cheapest delivered to most markets we compete in, yet Brazil's exportable surplus continues to be used internally as their demand has been off the charts.

In closing, revenue and income stream diversification remains as important to us today as ever. We are embarking on a new area of growth with Green Plains Partners being a large driver of that strategy. Notwithstanding this, we are also very focused on expanding our agricultural processing and distribution platform as well, and we spend the same, if not, more time working on these initiatives. While so far 2015 has not been up to par with recent years, our diversification strategy and the value of the asset base is just starting to be realized and we expect this will drive our ability to grow earnings in the future. Our five main legs of capital allocation remain the same: acquisitive growth, organic growth, debt paydown, dividend growth, and share buybacks. With our strong balance sheet we believe all of these are in our future plans.

I'd like to thank you for joining the call today, and now I'll ask Noah to start the question-and-answer session.

Q&A

Operator

Thank you. [Operator Instructions] And we'll take our first question from Adam Samuelson with Goldman Sachs.

<Q - Adam Samuelson>: Yes. Thanks. Good morning, everyone.

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

<Q - Adam Samuelson>: So Todd, maybe some of the comments you made at the end there about the hedge book and really not having much in place for the second half, is that really just the volatility in corn in the last, call it, 45 days, that's really upended the margin curve, at least for a short period of time? Or any other thought process there that has hindered the ability to hedge forward?

<A - Todd A. Becker>: Yeah. I mean, that was the main driver for it. Right before that corn rally that happened all the way into the mid-$4 range, now we're back into the mid-high $3 range, that really drove the margin structure narrow. In the last eight days, nine days from low to high, we've seen $0.15 expansion in margins overall in the margin structure, and we continue to see more of that happen within EIA data as well. So while 10 days ago, the margins were certainly negative on an EBITDA basis. They've come back nicely and are starting to develop in Q4 as well. So we're looking at that. We think the fundamentals are in our favor. We think production rates will drop from here throughout the rest of the summer based on shutdowns and some slowdowns we're seeing across the industry, but yet we think the demand will continue to be in place. So overall, we've seen the margins expand nicely over the last 10 days or so. And if we continue to grow this crop, how we think we're growing it, I think we'll continue to see corn trade at the lower end of the range. Obviously, eastern Corn Belt have some issues, but the western Corn Belt is certainly growing nicely.

<Q - Adam Samuelson>: And maybe kind of following up on that, I mean looking at some of the charts you have in here and just you look out on the curve out into the fourth quarter, the discount for ethanol to gasoline is quite narrow and certainly crude has been on a downward trend of-late and gasoline has followed that. How confident are you in the margin structure if you do see another leg lower in crude from here? I just – you kind of said teetering on equilibrium balance I think was your quote, and I wonder given where we are in the energy markets, is that something that does concern looking at the fall?

<A - Todd A. Becker>: Yeah. We look at crude under $50 and we watch it closely, but I think you're really talking about seasonally the discount narrows because of the winter gas versus summer gas prices, because I think once you get passed out March of next year, the spread volumes back out. We have never seen or we have not seen very often in the past seven years or eight years, a time where if the spread narrows to $0.05 over or $0.05 under gas, that we've seen any slowdown in blending at all. And we don't believe today we will see any slowdown in blending at all at even money to gas, at a small premium or a slight discount. The long-term strategy is still intact. You can't just kick out ethanol out of the blend for one quarter when you're going to see April, May, June already return to more historical discounts. And so the retailer doesn't really fuss too much with those narrow spreads. If crude continues to fall and we see RBOB continue to fall, obviously we'll watch that closely. But corn is linked to that as well, and as long as we have a big corn crop, I think we'll continue to compete for the gas tank with the molecule pricing.

<Q - Adam Samuelson>: Okay. And then maybe just a quick follow-up on capital allocation. At the end there, you talked about dividend and share repurchases being kind of part of the five legs of capital return. I mean given some of the weakness in the stock, can you help me think about cash return? And how that view changes with where the stock is right now?

<A - Todd A. Becker>: Yeah. So we take a look at dividends once a year, and typically in this upcoming board meeting, so stay tuned for that and we'll see what we come out of there. And obviously for the last couple of years, we've raised our dividend and we still have a very positive disposition to the business; and so we'll certainly discuss that at the board meeting. In addition, we do have $100 million share buyback authorized. We've been – as we mentioned, we said we want to make sure that understanding the underlying volatility of the security that we trade, that we have and trade, want to make sure we take a very opportunistic view of that. And again, what we mentioned the last time is as the stock traded at these lower levels, we were certainly positively inclined to start the program, but we were locked out because of the MLP this last time. So we have an upcoming board meeting and we'll make those decisions accordingly based on what the best use of capital is. And I would just say that we do have the buyback authorized and we would not be afraid to use it on any significant weakness from here in the stock.

<Q - Adam Samuelson>: Okay. That's very helpful. Thanks.

Operator

We'll take our next question from Farha Aslam with Stephens, Inc.

<Q - Farha Aslam>: Hi. Good morning.

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

<Q - Farha Aslam>: You had highlighted that margins have improved, kind of what are the current margins that you're seeing? And what's your outlook for margin progression for the fourth quarter?

<A - Todd A. Becker>: Yes. So in the nearby markets across our whole platform, which we think is a good subset of the whole industry because of where we operate, with Nebraska being the weakest in our platform and the eastern Corn Belt being the strongest, we're seeing – starting – we've finally got back into double-digit margins this morning for August and September. And so we're starting to see those expand into that level from the lows. Our eastern – some of our eastern plants are actually in – even over $0.20 and low to mid-$0.20s for August and September as well, but overall the platform has just got back into double-digit positive EBITDA margins.

We're not quite there across the whole platform yet for Q4, but I think that's just driven by that forward curve that Adam had asked about as well, and people aren't willing to step out and put coverage on yet. We do believe as we get into that quarter, we'll see stocks draw and production lower coming into the quarter, and then hopefully corn will help us out a little bit as well. But again, it's all driven by – eastern plants have the best margin structure in the quarter, they're kind of mid-teens, low $0.20s and the western plants have some of the worst margin structures across our platform. So typically that is the opposite in many years, but this year it's just – this year and part of the last year, that's the way it was shaping up just because of the corn basis spreads.

So overall, Q4 right now is high-single digits and Q3 right now, as we mentioned was – just got into the low-double digits. But that's a big expansion from the last eight days and the last nine days that we've seen and mostly driven by, we think, what is not represented in EIA, a slowdown in production across many parts of the industry.

<Q - Farha Aslam>: Helpful. And then in terms of farmer selling with all this volatility, have you been able to secure the corn? Kind of what kind of basis values are they asking for?

<A - Todd A. Becker>: Yeah. So it was really interesting, on this last rally to farmer really engaged on selling old crop and new crop corn. On the last rally, we were able to buy a big chunk of basis corn for the nearby and Q4 and even start to fill up and get commitments to fill up the stores that we had built. So we saw pretty good interest from the farmer, he engaged well. We were able to buy over a one-week or two-week rally period, almost a month-and-a-half worth of corn basis equivalent. I mean, obviously it's spread over a big period of time, but the U.S. farmer did engage. We're hearing that across commercial segments. Other commercial customers had the same experience. But the farmer has disengaged now on this last break. But more so, the basis is firming a bit, but it's firming off the lows that we saw. So I mean, in a lot of places in Nebraska and Iowa, we're pushing back towards historical basis levels, mid-teens to low $0.20s below.

And then east is really the spot we'll have to watch. We think Bluffton will be very tight on the corn basis and the Indiana market, but Tennessee is shaping up well for crop. So it's really Indiana and Ohio, the farmer didn't engage in either of those markets, and we'll probably wait to see what happens. But overall, with this 1.8 billion bushel or so carry out from this year going into next year, we think what is a very stable crop for next year now, the farmer has plenty to sell still.

<Q - Farha Aslam>: Thank you. And my last question is just on acquisitions, what you're seeing, what plant values are out there.

<A - Todd A. Becker>: Yeah. I mean, plant acquisitions are – continue to – we're continuing to look at plant acquisitions, they're expensive. The last couple plants that traded were in the $1.60 range per gallon. We think it takes that to purchase plants these days. And with the industry in a very healthy and healed level, even this drop in margin structure, there's no longer going to be distressed assets in this industry. Those have been pretty well cleaned up over the last five years. Industry is de-levered, the industry is very healthy; tighter margin structures at even zero EBITDAs, but then you get your corn oil above that. There's not enough distress for anybody to even consider dropping prices of assets. So they're harder to buy, I would say, in the $1.60 range would be the low end of the range to acquire assets now, and yet the MLP structure should allow us to compete if we want to look at assets in that range.

<Q - Farha Aslam>: Thank you very much.

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

Operator

We'll take our next question from Jeffrey Schnell with Jefferies.

<Q - Jeffrey Michael Schnell>: Hi, Todd. You mentioned plant assets, but I was wondering if you could update us on any downstream assets not in the MLP, but what you might do with cash if it does cost $1.60 to gallon, to purchase plants right now?

<A - Todd A. Becker>: Well, look, I mean at $1.60 a gallon, we could still compete from an MLP perspective now and a partner – and a GPRE, Inc. perspective in a combination to buy the plants, drop down the terminal assets and continue to operate. And so GPRE, Inc. would take the risky cash flows which we'd be very good at operating, and GPP would have the non-risky cash flows and the stable cash flows, which is what we outlined in our IPO offering and road shows. So from that perspective, we can still compete. Again, it's going to come down to right assets, right location for us to compete at that level. And we think there's some out there that we still look to gain liquidity for their investors.

Beyond that, we're in active pursuit of downstream assets that we think that we can acquire and utilize our base load volumes to drive even more volume through those acquisitions. We think that we're well set up to compete for those downstream assets. As we said, there's well over 1,000 individually-owned terminals in the United States today, and a lot – and many terminals, we are a base load volume where we can go in and compete at MLP values, yet even reduce it on a turn or two from an EBITDA valuation perspective because we can drive more volume. So we are in pursuit of assets. We are in processes looking at assets. And I think you'll see GPP look to start to utilize their cheaper cost of capital to expand our downstream business. And again, not anything to announce today, but we are definitely looking at making acquisitions in that entity.

<Q - Jeffrey Michael Schnell>: Thanks. And you mentioned some maintenance in the third quarter, and the industry's been producing at pretty high levels. Do you expect as the weather gets warmer, that others will take maintenance and ethanol price will come under pressure from production?

<A - Todd A. Becker>: Well, I think this is the quarter where August/September, we start to see the industries slowdown because of maintenance, Jeff. I think we're going to do all of our turnarounds in August and September, for all 12 of our plants?

<A - Jerry L. Peters>: Most of them, yeah.

<A - Todd A. Becker>: Yeah, most of our plants will have a turnaround in August and September, and so you'll see those go down for three days to five days on average or any other producers are planning the same thing. That has been somewhat of a driver of this expansion in margin structure, but also demand has been very, very good. And we continue to see demand through the rest of the summer. And if you look at historical demand rates through September at least, this is not a contracting demand time period all with back to school as well as and the end of the summer driving season.

So if we see any reduction in production rates with demand being the same in the export program we have, we think we could start to see draws as well through the rest of the summer. We saw a little bit production slowdown today, but I think the numbers will tell you from just data that we see that we could continue to see a slower rate than we've seen, and we may ramp up towards the end of the year. But overall, I think production rates are going to be from here to steadily lower throughout the rest of the summer and we'll make the assessments from there.

<Q - Jeffrey Michael Schnell>: Great. Thank you.

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

Operator

We'll take our next question from Craig Irwin with ROTH Capital Partners.

<Q - Craig Edward Irwin>: Good morning. Thank you for taking my question. Todd, I wanted to get your thoughts about the renewable fuel standard. There's been a lot of conversation out there about the authority of EPA to adjust, was really based on the ability of the industry to produce, to meet the production targets, not based on the ability of the obligated parties to deliver. And then I guess if you look at the way RIN's traded just before and after the announcement, we saw some pretty significant reset in RIN values, seems to point that obligated parties themselves believed we were going to get a bigger RVO for ethanol this year. What are your updated thoughts on RFS and the potential for EPA to face litigation or a tightening of their ability to adjust the standards the way they have?

<A - Todd A. Becker>: Yeah. So I think there's a couple things. In terms of the law, the law is very clear on what the numbers were. So the question is do they have the authority based on the law and the provisions in the law to reduce if there's not really a good reason to reduce the standard. And the answer to that is probably no. And the question of whether they face litigation for the industry is still yet to be seen. So we'll have to wait and see. We know that they will probably face litigation no matter what number they put out from the energy complex or the oil guys, but that's something that we'll watch closely. When you kind of dissect it through all that and you look at what the headline was and what reality was, for first gen corn-based ethanol, the headline was negative and we've seen articles written about that to say, a big drop in the RFS on ethanol, finally oil wins. But if you kind of dissect the numbers and you look at the 2016, 14 billion gallon mandate, that is very consistent with close to a 10%, if not, with some expanded blends as a base volume with kind of what the industry can produce and what the users are going to have from a demand perspective on the gas.

So when you look at the base number, the headline number certainly had negative tones, but if you look at it underneath, it had actually – in our view, it was slightly positive because we had an expanding mandate versus demand that we've seen in the last couple of years. Now, gas demand's better. We're pushing towards some weekly numbers at 150 billion gallons of gas demand and blending is keeping steady at some of those rates. But overall, when we look at the RFS as a company, we were actually – were positively inclined to view those numbers. Beyond that, the reset of the RIN market was obviously people taking a view of, is there enough RINs, isn't there enough RINS, what's the D5/D6 spread, D4/D6 spread and where is this all going to play out in the end. And I think that more so is the advanced numbers and the bio numbers will probably be more challenged than the ethanol numbers.

So overall from our perspective, when we look at a 14 billion gallon base market for domestic demand in the United States, we've got 1 billion gallon export market, which is very – or 800 million to 1 billion gallons of export demand, which we think is solid for 2016 as well, I don't think we can produce every day at 15 billion gallon rate. So that's a base equilibrium. Beyond those numbers, though, and it's a long answer, but beyond those numbers, E15 initiatives are well underway. And we've got major retailers that have made announcements, we've got more retailers going to make announcements. We have chains that are taking to 100 stores to 200 stores and 300 stores at a time and going to start switching them to E15. And, Steve, I don't know if you want to make a quick comment on that at all on what you're seeing. But I think it's very important for people to understand that the E15, and our investors to understand, the E15 initiative is well underway.

<A - Carl Steve Bleyl>: Well, a lot of it's in conjunction with the USDA grant program. So there were a lot of people that came onboard with the grant so that there was in excess of the [ph] $100 million (33:55) requested from it. So there'll be in excess of 1.7 billion gallons of retail demand that will be switching over to E15.

<A - Todd A. Becker>: Retail gasoline demand.

<A - Carl Steve Bleyl>: Yeah, right, retail gasoline demand.

<A - Todd A. Becker>: Right. So if you just take that and another 5%, that's going to be close to 100 million gallons of new ethanol demand just on that program, not inclusive with the other programs that we're in place today. So if we can get a couple of hundred million gallons over the next couple of years of E15 as a base number, we know that we can't ever really get much more than 1 billion anyways based on the ability to produce without exports. Your 20%, the way there and it just starts to eat into the overall equilibrium in our favor. Hello?

Operator

And it looks like he is disconnected from the call.

<A - Todd A. Becker>: Okay. I was too long, my answer was too long.

Operator

We'll take our next question from Ed Westlake with Credit Suisse.

<Q - Edward George Westlake>: Very long, but very helpful. Morning, Todd.

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

<Q - Edward George Westlake>: So just, I mean, we're obviously a little bit further away from corn, I mean obviously we see the problems that you've identified in part of the corn crop this year. But I mean, what are you hearing on the ground as it were?

<A - Todd A. Becker>: Yeah, Ed, in the last couple of weeks, from the conditions report, good excellent conditions have improved. We've seen a pop now in yield overall nationally based on those conditions in the 165 million pounds to 166 million pounds range. Obviously, a long way to go whether we achieve those yields or not, but based on all the models and the good excellent ratings, the crop has fully stabilized. The west is some of the best crops we've ever seen in Nebraska, Iowa, Minnesota, South Dakota. And in the east, we're going to have to wait to see what develops. Northern Illinois is a key spot that we'll have to watch closely, but I think now the weather is in our favor and the end of the crop producing time is in our favor as well. And we think we'll have a nice strong finish based on the other nice conditions. So overall nothing very bullish.

<Q - Edward George Westlake>: And then on the – I don't want to belabor the last point you made, but your view this year sounds like the ethanol guys produced quite healthily and that probably explained why we didn't get some of the conversion between cheap octane in ethanol and gasoline. But over time, you think that there is a chance given demand that that could still happen. Is that kind of the view, or the hope?

<A - Todd A. Becker>: The convergence of – I missed that point.

<Q - Edward George Westlake>: Sorry. The spreads between ethanol and gasoline which continued in your slides, you always put that chart showing where ethanol price is against...

<A - Todd A. Becker>: Yeah.

<Q - Edward George Westlake>: ...other octanes in the market, and whether we actually ever see that close up?

<A - Todd A. Becker>: No, I think against other octanes, obviously the RBOB spread is narrowed because of the winter gas pricing. But against other octanes, there's nothing at all that competes closely with ethanol today. Is there, Steve?

<A - Carl Steve Bleyl>: No.

<A - Todd A. Becker>: No. Everything's at $0.50 to $1 higher for any replace – any competing octanes right now in the marketplace.

<Q - Edward George Westlake>: Yeah. And then so my question is why do you think that's so persistent?

<A - Todd A. Becker>: Well, part of it is driven by the first part of your question with the corn competing as a molecule against gasoline, but also it's just in the 113-octane, we have a lot – oh, so again, at a 113-octane, we've got a lot of ethanol. But as you say, could that narrow, I think it can narrow to a point where we don't go much over RBOB, which you're seeing so that we can stay in the fuel supply and still be competitive on the blend, but I don't think it's going to go over RBOB to a competing octane price just because there's still – you can still bring on more capacity if you ever got to such a large margin structure. There's always additional capacity. So there is some upside limit to kind of where we'll go, but I think, yes, there'll be times when we will compete very well with other octanes and there'll be times when we narrow the spread as well, but still competing just depending on where the underlying RBOB prices are.

<Q - Edward George Westlake>: And then you mentioned the terminals that you could potentially roll off, you mentioned the price of ethanol capacity. Do you think there'd be any FCC concerns if a couple of larger ethanol producers decided to merge because obviously if you were to merge with another ethanol company, you could take whatever logistics assets they have, drop them into GPP, obviously your GP value would go up. And I'm just wondering if you think there would be any constraints on the ability to do that? Obviously, it still needs managements to decide that that is something that they want to do.

<A - Todd A. Becker>: I don't think from a government perspective, there are enough deals in terms of size-wise right now that would get them worried at all. I think our goal, as we said, is we want to continue to try and double the size, if not bigger, we want to try to I guess do 2 billion gallons. And even at 2 billion gallons, there's other 2 billion gallon-type players out there. I don't even think if you got to 3 billion gallons, if you were a company that was able to do that, you would even get on the radar screen of the government because it's still less than 20% or right around 20% of the industry. So I don't think today there are enough huge deals to do that you can get on the radar screen for any kind of concern on size or structure. So I think the industry, well, it's certainly ripe for consolidation, none of that will get on the radar screen of the government from size-wise.

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

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

Operator

We'll take our next question from Sandy Klugman with Vertical Research Partners.

<Q - Sandy H. Klugman>: Good morning. Thank you. Just a follow-up on the octane question. Outside of the U.S., could you discuss what kind of potential you're seeing for ethanol to replace MTBE as an octane enhancer?

<A - Todd A. Becker>: Yes. And so – that's a great question. So what we see is there's still 6 billion gallons of MTBE that's being used in the world today, and we're getting inquiries from a lot of those countries to replace that with ethanol, the octane as well as the – from a clean air perspective and a fuel extender perspective. So one of the big markets that is on our radar screen is Mexico and we are starting – and discussions are in place and that we are having them as an industry and as a company to expand our sales down to Mexico. That is a – not just an octane discussion, but also an MTBE replacement discussion. A lot of other places in the world as well, we're seeing interest as well because the price competitiveness of ethanol relative to other products is there.

So a lot of its growth is driven by the need for cheap octane, the need to extend their fuel supply, the need for clean air and cleaner burning fuels, but a lot of it's driven by MTBE as well. So that's why our view as a company in mid-2017, global demand will exceed global supply. And we haven't seen that for quite a while, and that's driven by this point or on MTBE, but also around octane and extending fuel supplies. So yes, we believe that we will continue to replace – displace this demand for MTBE in the world.

<Q - Sandy H. Klugman>: Okay. Thank you. That's helpful. And then to shift the storage, could you quantify some of the benefits you're seeing on your grain production costs or ethanol production costs from increasing your storage capabilities? And I'm also curious to see, we've seen a pretty significant increase in on-farm storage capacity over the last several years. How does that impact your grain origination costs for ethanol production?

<A - Todd A. Becker>: Yeah. So the one thing that we wanted to make sure we did around expanding our agriculture asset base was a first-hand origination from the farmers. And as we mentioned on the last call and in some of our investor presentations, when we buy farmer grain, we buy it somewhere between $0.07 a bushel and $0.10 a bushel cheaper than commercial grain. And the way we're able to compete with that is by offering the same programs as the commercial grain elevator does in rural areas around Iowa and Nebraska and wherever we have our plants. And by building out this additional storage, we now have 46 million bushels of storage across our whole company, but that's only about a month-and-a-half of demand of our needs. And so we want to continue to build that out because we believe that more farmer origination direct will widen out our margin structure over the long-term by an equivalent of $0.07 a bushel to $0.10 a bushel which is around $0.03 a gallon.

And so at every one of our ethanol plants, we now have more personnel originating from the farmer. We're starting to offer more programs. We have a new CRM system that we're implementing this year to get a better handle on our customer base and the thousands and thousands of farmers that we do business with. We think we could do everything that a commercial grain elevator does for them and we think we can offer them an insatiable demand every day for their product and then use that to compete very, very well. So with the onset of on-farm storage, as you mentioned, the farmer is in much more control of these crops. And so we needed to make sure that we acted and changed to adapt to that view as well and that's what we've been doing as we expand our storage. So overall, we believe, over the next several years, we'll be able to use that to our advantage to start to widen out the margin structure long term for ourselves.

<Q - Sandy H. Klugman>: Okay. Thanks. And just a quick housekeeping question. You mentioned maintenance shutdowns during Q3, I apologize if you've given this already, but could you provide an estimate of what your Q3 or back half of the year operating reach might be?

<A - Todd A. Becker>: I think you can – in a Q3 quarter, we'll have to update you on that. But at this point, we think the quarters could be similar to what you saw in Q2 because of operating shutdowns. And also we're also viewing – when we came off the lows, we definitely lowered our production rates at this time and a combination of those two things. We'll have to wait and see what our final production rate is. And then in the fourth quarter, right now, we have it pegged at our normal quarterly production based on 1 billion gallons, but those will be adjusted accordingly depending on the margin structure as well. So that's kind of where we're at for the rest of the year.

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

<A - Todd A. Becker>: Thanks.

Operator

We'll take our next question from Tyler Etten with Piper Jaffray.

<Q - Tyler L. Etten>: Hey. Good morning, guys.

<A - Todd A. Becker>: Morning.

<Q - Tyler L. Etten>: I was wondering – I think I believe you said that the demand from Brazil was very good. I was wondering what's the implications from the EPA proposal are on the arbitrage there, both on conventional and advanced biofuel RINs?

<A - Todd A. Becker>: Steve?

<A - Carl Steve Bleyl>: Is it – are you taking about the recent pushback from EPA on the increase for it?

<Q - Tyler L. Etten>: On the...

<A - Carl Steve Bleyl>: For the biodiesel?

<Q - Tyler L. Etten>: I believe on the...

<A - Todd A. Becker>: We broke up on that question. Can you repeat that again?

<Q - Tyler L. Etten>: Sure. I was wondering, I believe that you guys said that the demand in ethanol was pretty good from Brazil, or the exports from Brazil were very good. And I was wondering what the EPA proposal would have on an arbitrage opportunity there?

<A - Todd A. Becker>: The exports from Brazil, they're still developing. My point about the Brazil was any exportable surplus they would typically have, you're starting to see that being used internally in the country because their demand rates are so high, as Petrobras is starting to let the price of gas [ph] slow to (45:54) world market. So while the window may be open or closed on any given day, while some gallons may make it through the window and be exported to the U.S., any gallons, we believe, that are coming this way, we will have gallons heading in their direction to offset that lost volume internally in Brazil. So overall, minimal impacts based on current RIN spreads to the overall import/export parities. While it may be even some days getting off that volume to arbitrage between the two different RINs has been difficult for any kind of size. And any time that happens, we see gallons heading – we see interest for buying back into Brazil. So overall, so far not a huge impact.

<Q - Tyler L. Etten>: Okay. Thanks. And then just a follow-up on where the exports are going. I believe last time you said that you were getting some interest out of the UAE and Philippines and other Pacific areas. I was wondering if there's any new locations coming to market?

<A - Todd A. Becker>: There was some Peru business done, we saw some Tunisia business that got done. So that was new business and two new areas is what our customer that we sold to told us. We've got Mexico still nosing around, we have China nosing around the market still, we've had – we're actually not that far from a interest into China from a industrial standpoint. I think they're looking at industrial alcohols more than they are looking at motor fuels today. So overall, I mean, we see interest from many new areas as well as great interests from the older areas that we've talked about over the last couple calls.

<Q - Tyler L. Etten>: All right. Thank you very much.

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

Operator

And we'll take our next question from David Rose with Wedbush Securities.

<Q - David L. Rose>: Hey. Good morning. And thank you for taking my call. I had a follow-up on the margins and maybe you can help me understand this a little bit better. In order to see some profitability in the margin [ph] proof (48:03) on the ethanol, where are we? Or what are the assumptions for distillers grains and ethanol pricing? Because kind of where I'm looking at it, at least from my point of view, you'd be really challenged at the current environment, even going into next year. So maybe you can provide a little bit commentary around some of the assumptions without providing EPS guidance for 2016, but sort of maybe giving me some perspective of what you're thinking about corn prices and distillers grains as well as ethanol price to kind of get you at a base levels that would be equal to where you are today?

<A - Todd A. Becker>: Yeah. So if you had to look at – if you look at the curve and you look at distillers pricing, and so right now we're trading at 100% to 110% the price of corn. We are trading at historical basis levels in the west of, I would say, on average, $15 under across most of the western Corn Belt, and $15 over across most of the eastern Corn Belt. And then when you look at all of that, I think the biggest thing you face when you look at that is the fact that you have a corn market at a carry. So you can't just – the biggest driver of forward margins is the fact that corn market is at a carry when you look at today's prices and then you look at next – go all the way up, Jim. When you look at next summer's prices, you've got a carry from east corn at $3.80-ish today to July corn at $4.03, you've got a $0.23 a bushel carry but you have a flat to inverted ethanol market.

So the biggest driver of your forward margin structure is the fact that at $0.23 a bushel corn carry to July which is about $0.09 a gallon and then you've got a $0.04 a gallon inverse to there your $0.13 is your impact for your ethanol margin curve just initially – just go down. And then if you look at the overall margin structure from today to then, that is mostly reflected in your structure. So if you have a double-digit margin – let's just say you have a double-digit margin structure in the spot of $0.10 or $0.11, but you've got $0.13 discount in the forward curve based on the corn carry against the ethanol inverse, it all take shape right there for you to look at next summer margins and it's really meaningless to look at it out on the curve to think that's what's going to happen because the corn carry or the corn market will probably adjust to these lower levels overall, as we go forward, based on the current crop. So that is the almost one-for-one driver between the discount. It's the corn carry at $0.23 a bushel with $0.09 a gallon and the inverse in the ethanol market at $0.03 or $0.04 which is $0.13 keeping all the other factors the same of corn basis and distillers grains.

<Q - David L. Rose>: Okay. That's helpful. And so your thinking around the improvement in the market gets you how much improvement in terms of where you are today versus Q4?

<A - Todd A. Becker>: I don't understand the question. Can you -?

<Q - David L. Rose>: So your commentary about margin improvement over the last eight days assumes what in the Q4 all else being equal in terms of the EPS basis?

<A - Todd A. Becker>: We mentioned Q4 right now is – well, I don't know on an EPS basis right now, but Q4 right – and we don't give EPS guidance, all we said is if you look at Q4 today, you have return to kind of mid-to-high single digits off of a low that we saw eight days or 10 days ago. So that's all we've given in terms of just what a cross section of the industry with eastern plans performing much better than western plans.

<Q - David L. Rose>: Okay. Thank you.

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

Operator

And we'll take our next question from Farha Aslam with Stephens, Inc.

<Q - Farha Aslam>: Hey. Thanks very much for the follow-up. Just two quick modeling points. With all your debt restructuring, what do you expect quarterly interest expense to run? And in terms of your tax rate, what do you expect your tax rate to be?

<A - Jerry L. Peters>: Yeah. Our total – our current portfolio interest expense is right around 5% overall. Now, that varies kind of depending on the mix of term debt versus our revolver debt, but I would plan on kind of an interest rate of about 5% overall. Tax rate is a little bit more complicated given the MLP and the fact that the MLP will be consolidated with us. We'll report the income of the MLP or at least the minority ownership portion of the income of the MLP on a minority interest line. But the tax rate will reflect a different rate for our operations versus the MLP's operations. So net-net, at least for right now, best advice I could give you would be to leave it about flat in the roughly 37% to 38% level. But it remains to be seen just exactly what the total impact of the MLP is.

<Q - Farha Aslam>: Okay. That's what we'll do. Thank you very much.

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

<A - Todd A. Becker>: You bet.

Operator

We'll take our next question from John Segrich with Lorem.

<Q - John Michael Segrich>: Hi, guys. Just a quick question, Todd, I know you had said that you were kind of in a blackout period with regard to buyback. You've got $100 million in our facility available. I guess I'm just trying to understand as you think about the allocation of capital that you ran through, when I look at your stock here, you're kind of trading $1.10 a gallon. If I strip out the GP, it's obviously – or the GPP stake, it's even lower. Yeah, we're kind of looking at acquisitions opportunities in the public market at $1.06 a gallon. So I guess I'm just not understanding why not buying back your own stock is the single best capital deployment you've got and why it actually shouldn't get allocated even more of the balance sheet now that you've got excess cash coming in from the GPP deal?

<A - Todd A. Becker>: Yeah. I don't think we've said that that wasn't a great opportunity for us. I think what we said is, obviously, we have the allocation. We haven't – as we make the decision to buy or not buy back our stock, obviously, that'll be something that we talk about as we do it. As we just reported earnings, we're just coming out of the blackout, and then we'll have to make the decisions accordingly as I meet with the board over the next two weeks. So you're absolutely right from a allocation perspective, if that's the best thing to do with our capital. I think you've heard us say in the past we would not be afraid to use our balance sheet to buy the shares back and to allocate capital that way if that's the best return that we have and that's how we measure everything. So overall, yes, it is the cheapest ethanol plant we can buy. And then the question is how does it rate on the return spectrum, and if that's the best allocation of capital, then we will not be afraid to use the buyback.

<Q - John Michael Segrich>: Great. And just out of curiosity, how much cash do you think you need to leave on your balance sheet? In other words, what's the amount of excess cash you have today? Is it a couple hundred million dollars? Or how should we think about what you could use for buybacks, dividends, acquisitions, whatever?

<A - Todd A. Becker>: Yeah. I think we'll reassess that based on the size and scope of our company, based on the 1.2 billion gallons that we'll have going forward, based on our hedging program needs and certainly the underlying volatility of the commodity markets also to make sure that we can have adequate liquidity to withstand any kind of cyclical volatility. And then beyond that, when we look at the MLP and investments there, because I would argue that that would probably rank somewhat similar to purchasing back our own currency as well from a rate of return perspective.

But overall, a couple hundred million extra dollars right now is something that I think the balance sheet can withstand, utilizing that for acquisitions, buybacks, dividends, et cetera. So don't forget, we have a $65 million capital program right now at our plants. We've got another $100 million coming in 2016 and 2017 for the next 100 million gallon expansion, which is still cheaper, or still the best use of capital from an accretive standpoint over the long-term. We've got a normalized margin structure. So we do have capital allocation projects taking place. Obviously, we'll generate free cash flows to help finance that. But overall, again, we'll assess what the best use of capital is and we won't be afraid to use our balance sheet for that.

<Q - John Michael Segrich>: Great. Thanks. Looking forward to it.

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

Operator

We'll take our next question from Craig Irwin with ROTH Capital Partners.

<Q - Craig Edward Irwin>: Thank you for taking the follow-up question. So Todd, this year debottlenecking has had a pretty significant impact on overall market conditions. And just in your last question and other points in the call, you discussed another 100 million gallons coming in from Green Plains. Can you frame out for us how you think about the ability of the rest of the industry to debottleneck and whether or not the RIN ability of plants actually ends up being a factor that limits the capacity creep that we're seeing?

<A - Todd A. Becker>: Yeah. So I think that you're seeing the capacity creep in the numbers on a weekly basis pushing towards that 14.8 billion gallons to 15 billion gallons on any given week, and that is mostly through capacity creep, whether a plant had 10 million gallons, 20 million gallons or 30 million gallons. Some of our initial capacity that we're expanding had RINs available at those plants. So we don't have any RIN issues. And then we really only have three or four other plants that qualify under the EPA program to continue beyond that in terms of looking at the efficient producer program.

So far based on our analysis, 2.8 billion gallons of production has been approved under the efficient producer program, which will be qualifying as a RIN. And of that production then – that's the total production and then a percentage of that production is what you'll see that qualifies for the RIN. So we estimate somewhere between 5% and 10% of that, which you've seen in the capacity creep of 140 million gallons to 150 million gallons. Beyond that, there are definitely capacity coming on that we believe are RIN-less gallons that people are focused on exports, whether on the river or something like that.

And so I think we'll continue to see capacity creep over the next several years, but I think offsetting that we'll see demand creep as well, both from E15 as well as export markets. So again, even with this capacity creep, we're not building stocks. We had 19.6 million [ph] bushels (59:19) of stock this morning. We haven't built stocks in several weeks and we've been running at [ph] 960,000 to 980,000 (59:22) over the last five weeks trailing. And so I think the market can handle some of this creep, and obviously it takes time. And we hear more and more projects, but overall this is – anything can be from 1 million gallons to 10 million gallons to 20 million gallons to 30 million gallons. But I don't think overall you're going to see another 1 billion gallons of capacity come through that because I think somewhat – there is somewhat limited by RIN capacity. So I think we've seen a lot of the creep come through already and then we'll wait and see what's left after that.

<Q - Craig Edward Irwin>: Thanks. And just as a point of clarification. The additional 100 million gallons that you announced on this call, is that related to possible expectations around qualifying for the alternative pathway to EPA? Or is that existing RIN-able capacity at your plants?

<A - Todd A. Becker>: No, the first 100 million gallons is RIN-able capacity – RIN-able, if that's the word, capacity. The next 100 million gallons is mostly qualifying through air permits and the efficient producer program and that's all we have. We don't have any more capacity than that to qualify under the efficient producer program. So we'll look to add that capacity in late 2016 and 2017, which we think is perfect timing for the forward ethanol demand curve.

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

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

Operator

And we'll take our next question from Majid Khan with Tourbillon Capital.

<Q - Majid Khan>: Hi, guys. Thank you for taking my question. Most of my questions have been asked and answered. I was just wondering last quarter you had said that you were 10% hedged into Q3 and that was at the end of April. I was wondering if there was an update to that number?

<A - Todd A. Becker>: Yeah. Well, I mean, obviously a third of it's done already because July is done. And then we have – based on what we thought were good current supply and demand fundamentals, we didn't add to that. Obviously, the corn market sort of loop into that with that recent rally, but now we've gotten most of that back to where we're back to levels that we had hedged some of the first 10% or 15%. So now with a third of the quarter done and the market continuing to see expansion in the margin structure, it feels a little bit tight out there on stocks and product. We'll just basically be making our decisions on a week-to-week basis for the rest of the quarter and then we'll look at Q4. And that strategy has worked very well so far off the lows.

<Q - Majid Khan>: Got it.

<A - Todd A. Becker>: But there will be a point where we will pull the trigger and lock away a large chunk at some point.

<Q - Majid Khan>: It's fair. And, Todd, I'm just – I know a couple of people have now asked on the call, and I know you've mentioned that you're not afraid to use the buyback. Certainly, this morning, I think you're getting your ethanol gallons pretty cheap. But I'm wondering what's the disconnect between the private market valuations and the public market? Because I think someone on the call mentioned that it was $1 a gallon. I think when you strip out your interest in Green Plains Partners and your non-ethanol businesses, it's probably significantly less than $1 a gallon. So why is it that you think the public market doesn't give you credit for your assets the way that private markets are giving credit, and what's the solution? There seems to be an arbitrage opportunity. Is there a way to collapse that arb?

<A - Todd A. Becker>: Well, listen, I think the public market takes a quarter-by-quarter view of the margin structure and thinks that's how we're going to live the rest of our lives for the – for eternity through the – for the company, and we don't agree with that. I think the private market takes a five-year to 10-year to 20-year view. They buy an asset and they believe over time the asset will perform and generate above mid-cycle margins. And so when you look at that, I think that's the key point, which is the public market trades quarter-by-quarter and believes that the current margin structure will last forever, and we know that that's never been the case in ethanol, and I think there's a severe disconnect between public and private valuations.

Now, I will tell you the disconnect narrows upon a better margin structure. So as we see times like this and we have a lower margin structure, the disconnect widens, and as the margin structure goes towards the higher end of the range, the disconnect narrowed last year to where GPRE was trading at even money to private valuations. And I think that's just a continued battle that we'll fight, but opportunistic for both our shareholders in the public markets as well as, as we've said, allocation of capital off the balance sheet now that we're a much stronger company. So we believe that that disconnect is in place today, as you do, or as you mentioned. And that's – we think it's opportunities for both our shareholders and our balance sheet.

<Q - Majid Khan>: Thank you, Todd.

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

Operator

We'll take our next question from Eric Seeve with GoldenTree.

<Q - Eric Seeve>: Hi, guys. Two questions. First is you spoke very briefly in your comments regarding the outlook for the non-ethanol businesses. Can I tell you just to elaborate a little bit on what you expect to see in Q3 and the second half of the year, just qualitatively speaking, first on the segments you haven't spent much time on today, specifically agribusiness, marketing and distribution and corn oil?

<A - Todd A. Becker>: Yeah. So corn oil should be consistent throughout the year with the guidance that we had given previously in the basically $8.5 million to $10.5 million of operating income per quarter, somewhere in that range, depending on run rates and the market. Marketing and distribution segment, for the last half, we think we'll perform better than the first half. We don't give specific guidance on numbers around that, but we definitely had a slower Q1 and Q2 than we expected, but Q3 is shaping up well.

And again, and then finally in the agribusiness segment, the fourth quarter will be the quarter where we start to earn more normalized storage margins and carry margins, and we should get back to more normalized numbers there. So we think the agribusiness segment is a $8 million to $10 million operating income segment for the year, and marketing and distribution will be improved in the last half versus the first half. But obviously, work to do there, but all the signs are very positive for that – are positive for that. And so overall...

<Q - Eric Seeve>: And in terms of agribusiness...?

<A - Todd A. Becker>: ...better last half than the first half.

<Q - Eric Seeve>: And in terms of agribusiness, it's been, $4 million of operating income this quarter. Does Q3 qualitatively feel similar to Q2, and what would drive the improvement in Q4?

<A - Todd A. Becker>: Q3 is typically a down quarter for us because of our – we're waiting for harvest to come in. And then Q4 should be structurally similar or better than what we've seen previously depending on, if we fill our storage and what we fill it at and what the margin is as well. But I don't think that – agribusiness Q2 was $2.2 million of operating income.

<Q - Eric Seeve>: Right, right.

<A - Todd A. Becker>: Not $4.5 million as you mentioned.

<Q - Eric Seeve>: Apologies. Okay. Thank you. My second question is on, in response to a different question you answered earlier, you mentioned that you expect to see litigation against the RFS and that this is no surprise and everyone had seen this coming a long way away. But my question is – and this is kind of a longer-term hypothetical question and I appreciate it's a remote possibility, but in the extent that the RFS was, for whatever reason, repealed, what do you think the impact would be on the industry?

<A - Todd A. Becker>: Well, I mean, as we mentioned, we're setting the company up to be kind of a post-RFS company at some point in – to be 20 years, I have no idea. But at some point, the industry will have enough base demand and compete that, I think, we're competing number one from a molecule and a price perspective already. The RFS – we didn't have an RFS last year or the year before that. We still blend the maximum levels. I think that would be the same place in a post-RFS world. I don't believe though that that's really a reasonable expectation at this point that we will see any kind of massive repeal of the standard. I think it's the baseline agricultural program in the United States, it's also the baseline program for continued investment in next-gen and advance-type technologies, if any of them can crack the code. So I mean, overall, you have to compete for the future of the gas tank on a price perspective; and there is a shortage of octane in the world. So with that said, obviously, the RFS is a nice-to-have. In our view, it will, at some point, have adjustments made in the future, but I don't think that future is anywhere in our lens today.

<Q - Eric Seeve>: Great. Thanks, Todd.

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

Operator

And we'll take our final question from David Driscoll with Citi.

<Q - David Cristopher Driscoll>: Thanks for taking the question. Just a couple of just small questions here. How many excess RINs do you estimate there will be by the end of 2015?

<A - Todd A. Becker>: Thanks for waiting so long to ask the question. Steve, what do you think on that?

<A - Carl Steve Bleyl>: It's the number that's being contested right now due to what was – one of the EPA factors was they think RINs were produced that were retired, and we know after September 15, a large volume of them were never even produced. So it's being contested right now. It's a number we don't have a good answer on.

<Q - David Cristopher Driscoll>: Okay. Well, that makes it complicated. And then just to clarify...

<A - Carl Steve Bleyl>: It just went to EPA through the Growth Energy and a few other people petitions said you're counting RINs that never had – that were never produced.

<Q - David Cristopher Driscoll>: Okay. But the pre-argument number is something way north of 1 billion RINs. Is that fair? And then there's an argument about whether or not some of those are real.

<A - Carl Steve Bleyl>: That's correct. But it was north of 1 billion RINs, yes.

<Q - David Cristopher Driscoll>: And then the efficient producer, you were making a comment earlier about how much capacity could be expanded, and I believe you said 2.8 billion gallons was part of this efficient producer approval process and that 5% to 10% has come online. So is that – to be super clear here, if the industry wanted to, are you saying that they could bring on 2.8 billion gallons of new capacity?

<A - Todd A. Becker>: No, no, no, it'd be 2.8 billion gallons of plants that are operating today have approved for expanding capacity. So it's like ourselves the – when we go and take a 100 million gallon or 120 million gallon ethanol plant and then we try to ask for say 10 million more RINs, we're part of the 2.8 billion gallons and then the percentage of that would be what's expanded. So what I said is basically, it'd be like 2,800 million gallon plants that are operating today asked if they could expand their capacity from 2.8 million gallons to, let's say, 2.9 million gallons. So it's the net number between what the plants are producing today and what the plants are asking to produce tomorrow, but it's not a 2.8 billion gallon in capacity expansion. It's a small percentage of that capacity.

<Q - David Cristopher Driscoll>: Very clear. Last question for me is what happens to your thoughts on the ethanol market if Iran comes back into the oil market in a big way and we see another big drop in these oil prices, like just nowhere in the conversation has the price of oil and how it affects gasoline prices kind of come into this conversation. And I feel like it should be, but would love to hear you opinion.

<A - Todd A. Becker>: Yes. So I mean the return of Iran to the markets, I mean, I think we're even seeing them spreading the impact to some of the world markets already.

<A - Carl Steve Bleyl>: It's part of the closure on the spread now.

<A - Todd A. Becker>: Part of the closure as well, I think, on some of these spreads. But listen, again, there is a – from our perspective, we're still competing very well even at these lower gasoline prices. Obviously, the winter is narrower than the summer, but overall even at sub-$50 gas and RBOB prices sitting where they're at, we still remain at discount and we're profitable at that discount. If oil continues to fall, we'll have to wait and see where the crack spread ends up and where gasoline prices are and also where refinery runs go based on these lower gas prices as well, I think we'll still be able to compete.

Obviously, one of the things that really helped us out here was stabilization of the U.S. corn crop into this kind of mid-160 million pounds yield range as well as the good excellent rating going up last week and the corn market coming off – $0.70 or $0.80 off the highs. And we really don't have any new demand for our product for U.S. corn in the world today. Nobody really wants our corn. Everything is cheaper. And so overall we believe that, taking into consideration that, taking into consideration the demand for our protein, taking into consideration the demand for our oils, it's overall we'll still compete and we can still be profitable competing sub-$50 oil. Now, if it goes sub-$40 oil, we'll have to re-access on where the corn price needs to be because corn has to compete as a molecule. As we've always said, a third of the corn crop is a molecule and it has to compete with oil. And so we'll have to wait and see what happens there. But overall, I think we're competing very well at $50 oil.

<Q - David Cristopher Driscoll>: But the key, the absolute key here is just this idea that as oil goes down, the corn markets got to adjust and that it will keep you in a scenario where you're expecting to be able to compete at a small profit level. So it never gets to be draconianly bad, it's just the corn market must adjust and that's how the model works.

<A - Todd A. Becker>: I think the corn market has to adjust or the gasoline market, the crack spread will have to adjust as well. That's something we watch. It's not just based on oil. I mean where is the crack spread going to well as well, and where do refinery runs go as well, and I think there's other factors that took place.

<Q - David Cristopher Driscoll>: Okay. Thank you so much.

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

Todd A. Becker

And thanks everybody for coming on the call today. We'll talk to you next quarter. Obviously, a lot of things going on in the company. We thank you for your support, and thanks for coming on the call today.

Operator

This does conclude today's conference. Thank you for your participation.