Q3 2019 Earnings Call

Company Participants

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

Other Participants

- Adam Samuelson
- Tim Perz
- Kenneth Zaslow
- Eric Stine
- Pavel Molchanov
- William Axmacher

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Green Plains Inc and Green Plains Partners Third Quarter 2019 results. At this time, all participant lines are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session (Operator Instructions).

I would now like to hand the conference over to your speaker today, Mr.Jim Stark. Please go ahead, sir.

Jim Stark, Vice President of Investor and Media Relations

Thanks Liz. Welcome to the Green Plains Inc and Green Plains Partners Third Quarter 2019 Earnings Call. Participants on today's call are Todd Becker, President and Chief Executive Officer and Patrich Simpkins, our Chief Financial Officer. There is a slide presentation 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 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 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 reported filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

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

Todd Becker, President, Chief Executive Officer and Director

Thanks, Jim, and good morning everyone, and thanks for joining our call today. We reported a net loss of $39 million or $1.06 per diluted share. As expected though, the financial results were driven by a weak ethanol margin environment for most of the third quarter. So far, there is a much different picture for ethanol margins in the fourth quarter as the curve has turned positive and remained that way through this call. I will discuss this more in detail later on the call.

We produced approximately 238.5 million gallons of ethanol, which put us at an 84% utilization rate for the quarter. Again, our Madison plant did take some time to get up to speed after the extended shut down and we are close to reaching our desired production levels at this plant, yet still have a little work to do. The consolidated crush margin for the third quarter was a negative $0.06 per gallon. While certainly this is not the margin we would like to see, the industry rationalization due to the extended negative margin environment has resulted in plants shutting or slowing down, therefore reducing inventories. This culminated in a late Q3 margin improvement that has continued into the fourth quarter.

As I said, the ethanol industry did appear to show some production discipline in the third quarter as the production rate for Q3 2019 was 4% less than the same quarter a year ago.

So far into the fourth quarter, industry stocks are at the lowest level we have seen in more than two years. While margins have recovered to be positive, at similar fundamentals, last time stocks were at this level, margins were significantly better. As we noted in the press release yesterday, we have completed the first Project 24 modification at our Wood River, Nebraska location. The plant was restarted last week and is now ramping up production.

It may take a few weeks for this plant to reach its targeted utilization rate, but we believe the investment in Wood River will lower its operating cost per gallon by approximately $0.08, but will also lower its natural gas usage at the plant by 25% generating additional savings over and above the $0.08 per gallon. Wood River will now be one of the top two or three plants in our system and should be competitive with the best operating plants in the industry.

Not only does this change the value of this plant but should also change the way the market thinks of our platform valuation as well. We have begun work on the next three Project 24 upgrades, which should be completed in March or April of 2020. Once done, approximately 360 million gallons or nearly half of our non-ICM production capacity will have significantly lower operating cost per gallon, driving our platform average below $0.26 and lower as we fully deploy the full Project 24.

Remember, as we indicated, our first quarter of 2019 was over $0.36 with our slowdown and last year was over $0.32 gallon in total. This is why we have already seen us close the margin gap on the competitors who mainly run ICM platforms. Our goal remains to get to the top 15% or 20% of low cost producers in the industry very soon. Again, our capital cost per gallon for this project is approximately $0.08 or $0.09 with a savings of $0.08 or $0.09 per gallon on lower operating expenses that are non-ICM ethanol plants. We believe Project 24 will give us a distinct advantage in operating cost compared with others. And under our agreement with ICM, have exclusive rights to deploy this technology across our platform through the end of 2022.

As we announced in September, we are successful in selling 50% of our cattle feeding business. The total EBITDA generated for the entire business for the third quarter was $11.2 million, earning approximately $75 per head EBITDA. I will let Patrick get into the equity method discontinued ops conversation when he reviews the financial numbers for the third quarter. We expect Cattle's solid financial performance to continue, finishing the year on a strong note and we expect a record quarter for this business overall in the fourth quarter. Currently, this transaction has a significant impact on our balance sheet. Our gross debt as of September 30th was $530 million and breaks down very simply as; a $150 million of non-recourse working capital financing secured by inventory and receivables, a $140 million of non-recourse debt associated with Green Plains Partners that has to be consolidated; and $240 million of convertible notes and other debt.

We had $254 million of total cash at the end of the third quarter and when compared to the $240 million of debt that had an actual recourse to Green Plains, we were net debt zero at the end of September 30th. While it has taken us some time to get back to this net debt to zero position, I am pleased that we stayed the course that we communicated to you back in May of 2018 with our portfolio optimization plan. We also noted in the release yesterday that we supported the stock price through the third quarter and into the fourth quarter, buying back approximately $22 million of stock or 2.2 million shares.

For the year, we have purchased nearly $62 million of stock or 5.4 million shares. The Board of Directors have authorized an additional $100 million for the share repurchase program. Green Plains now has approximately $119 million available under the authorization. As we did over the last 120 days, we will be opportunistic buyers of our shares in the future. As I discuss the high protein initiative later in the call, this was not only about purchasing shares below book, although that is a strong reason itself as we approach 30% of book value and now sit over 60%. But more importantly, we get to buy the perceived ethanol valuation as we transform the company into a high value protein business. I think the long-term value of these assets are not reflected in the long-term opportunity that has become available to us with the high-protein feed technologies.

Green Plains has agreed to sell its 50% joint venture interest in Jefferson Energy Company's fuel terminals to our joint venture partner Jefferson Energy Holdings for $29 million. The transaction should be closed on or before December 15th, 2019. When we partnered to build this facility, terminal space was challenging for ethanol exports, which is not the case today.

We also believe that redeploying this capital for other organic projects will yield a higher return for our shareholders. In the end, we are under contract to sell the terminal for more than we built it for and it should show the market how strong our balance sheet has become and our ability to withstand downturns in the future. More important, along with these actions, we expect to be cash flow positive from operations in the fourth quarter and have delivered on every aspect of the portfolio optimization plan, including the cattle transaction which was beneficial to our shareholders as well.

Green Plains Partners reported $13.3 million of adjusted EBITDA and a coverage ratio of 0.98 times for the third quarter and 1.05 times for the trailing 12 months. We firmly believe there are opportunities to grow the partnership outside of its relationship with Green Plains Inc, but we wanted to get the business that supports the partnership healthy first. So now we can go on the offense and start to invest in growth as cash flow remain steady and the distribution remains solid and intact.

Now I'd like to turn the call over to Patrick to review both Green Plains and Green Plains Partners' financial performance and then I'll come back later on the call to discuss the outlook for the fourth quarter, give a policy update and provide more details on our protein initiatives and strategies for the near future.

Patrich Simpkins, Chief Financial Officer

Thank you, Todd. Green Plains' consolidated revenues were $632.4 million in the third quarter, down $156 million or 20% from the third quarter a year ago. The decrease in revenue was driven primarily by the disposition of three ethanol plants and the sale of Fleischmann's Vinegar during the fourth quarter of 2018.

I would also like to note that taking the cattle business off balance sheet affected our historical revenues as the business is now classified as discontinued operations. With the disposition of our cattle operations, there were a $160.1 million and $217.7 million of revenues for the three-month period ended September 30th, 2019 and 2018 respectively that are now reported as discontinued operations.

In addition, the related assets and liabilities of the cattle operations have been removed from the balance sheet as they were no longer consolidated in the company's financial statements. Going forward, our proportional share of the cattle operations, along with all other equity method investments will be accounted for using the equity method of accounting. Our consolidated net loss for the quarter was $39 million versus a net loss of $12.5 million a year ago. We recognized a tax benefit of $12.5 million in the third quarter of 2019, resulting in an effective tax rate of about 24%. Interest expense decreased $9.2 million to $10.5 million for the quarter compared to last year with the change being driven primarily by significantly lower overall debt balances compared to last year.

Adjusted EBITDA for the third quarter was a negative $13.4 million compared to positive adjusted EBITDA of $32 million for the third quarter of 2018. SG&A of $18.5 million decreased $4.7 million or 20% from 2018, primarily due to the reduction of controllable expenses and the asset sales completed in the fourth quarter of 2018. CapEx for the first nine months of 2019 was about $49 million with approximately $17 million of maintenance CapEx for ethanol production, and an additional $32 million of growth capital primarily for Project 24 in the high protein feed project in Shenandoah, Iowa.

On Slide 8 of the investor deck, you will see our balance sheet highlights. We had $288 million in cash and working capital, net of working capital financing at the end of the third quarter compared to $427 million at the end of 2018. Our liquidity position at the end of the quarter remained solid, with $254 million in total cash along with approximately $260 million available under our working capital revolvers. This amount does not include availability of $68 million under the credit facility of the partnership.

For Green Plains Partners, we had 238.9 million gallons of throughput volume at our ethanol storage assets, which was down 75 million gallons or 24% from the third quarter of 2018 as we also saw a Green Plains plant sales in Q4 of 2018. The Partnership reported adjusted EBITDA of $13.3 million for the quarter, which was $3.5 million lower than the third quarter of 2018 as a result of lower throughput volumes. Distributable cash flow was $11.1 million for the quarter, which was $3.8 million lower than the same quarter of 2018, reflecting the sale of the three plants in the fourth quarter of last year and slightly lower ethanol production at Green Plains in the third quarter versus prior year.

The distribution of $0.475 per unit declared on October 17th resulted in a coverage ratio of 0.98 for the third quarter. On a last 12-month basis, adjusted EBITDA was $55.8 million; distributable cash flow was $47.2 million; declared distributions were $45.1 million resulting in a 1.05 coverage ratio.

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

Todd Becker, President, Chief Executive Officer and Director

Thanks, Patrich. And earlier in the call, when I talked about Project 24, I want to make sure we have clarity on where we're at today and where we're going to. Project 24, we're on the path to below $0.24 a gallon, and we believe that we will actually exceed those targets, when all the projects are completed. When our four projects are done in April of 2020, our OpEx per gallon will be below $0.26. And then finally, when it's all done later in the year, we will be below $0.24 a gallon. And I had misspoken earlier on the call. Now, I'll come back to discussing the margin environment and our initiatives going forward. Margins for the first time in a year are positive in the current quarter and are plus or minus a few pennies of breakeven through the middle of 2020. Looking at US ethanol production over the last 90 days, we are averaging about 1 million barrels of production a day and spending considerable amount of time below those levels.

That's almost 50,000 barrels less than the same period in 2018 per day. As a result, ethanol inventories are at some of their lowest levels in over two years sitting at over -- a little over 21 million barrels or about 20 days of stock when you include export demand. I want you to keep something in mind; Green Plains is not intentionally slowing anywhere. The industry has taken over reducing production and finally, plants that -- which should have slowed down sooner and it were -- who were counting on the Green Plains slowdowns like the past, have hit the wall and realized you can run out of money with a strategy like that if the downturn last too long, like the one we have experienced.

So while we were selling assets, paying our debt off, increasing liquidity and investing in efficiencies, many others were hoping for the improvement and finally reached a point where liquidity was drying up. Reaction time seems to be faster in the industry to temper production levels as cash burn accelerated. The physical market are sure telling us that margins should go higher as index values have continued to be very firm in relation to history. We continue to monitor the corn harvest and believe that the USDA projections for the crop are accurate to what we know around our plant locations.

Our internal crop yield is based on a very comprehensive multi-year crop tour and analytics program that we have put in place remains at about a 170 bushels per acre. We're going to find out more this week how that looks. We are encouraged by the administration's effort to support ethanol and our farmers. The current proposal from the EPA on how to handle small refinery exemptions continues to be a challenge, but we hope to have a path to a program that makes sense.

Our goal has been to get the 15 billion gallons mandated by the renewables fuel standard to be upheld. Our understanding of the proposal is just that; 15 billion gallons means 15 billion gallons as quoted from EPA Administrator Wheeler; but the EPA has full discretion, which is why we are asking for actual gallons to get used and not the DOE recommendations.

We continue to try to find a happy medium between industry and the EPA, but the relationship is sometimes strained. We are also pleased that a trade deal is close to resolution with China. While export -- ethanol exports are still tracking in the 1.5 billion to 1.6 billion gallon range this year, a deal with China could add substantial demand to the US ethanol industry, and we believe it will be on the list when China comes shopping from products from the US farmer.

We continue to make progress with Mexico and other countries as mandates continue to increase around the world for ethanol. Contrary to false news you read, Ethanol is already a low carbon fuel and continues to get lower each day as plant improvements and upgrades changes our footprint and calculations for the better for the industry. A great example of this is our Wood River project. We believe our Carbon Index, or CI score, will be at 64 or below, placing this plant in the top 10 of all plants in the industry. The fact that all of our production could score here versus some plants with partial production scoring is a testament to the projects we are putting in place.

The combination of more domestic demand from higher blending requirements, continued expansion of Unleaded 88 or E15, and higher export demand with China should continue to improve the ethanol margins in 2020 as long as this all happens.

Our operating cost per gallon continues to improve, as mentioned; but more specifically, we continue to track lower in November-December as a result of the work completed at Wood River and other initiatives we have ongoing and believe we will continue to achieve, as I mentioned, sub $0.24 a gallon level across our whole platform when all of our projects are done.

Our high protein feed technology capital investment in Shenandoah, Iowa is progressing well. Our steel to finish the fabrication of the dryer system for the project was delayed, but is on the ground there now. While the construction and production on high protein will be completed in December, dry product will be available on February of 2020 because of this delay. We have seen significant interest from feed ingredient companies wanting to enter into offtake agreements for our future production of the new product that we will produce. We have agreed to sell 60% of Shenandoah's production volume at a fixed price offtake for a premium to high protein soymeal prices and remain in negotiations for the remainder, along with a second plant's production to be named in the future.

This is not a commodity product like traditional distillers grains of the past, but an isolated highly specialized protein from the corn kernel that can radically transform our Company's profitability as we roll through the whole platform in the future. We believe that we are not only on a path to be the base product of 50% protein from this technology, but believe that next generation technologies exist to take this protein higher -- potentially, much higher.

We are in the cusp of finally changing traditional ethanol plants into true bio-refineries through changing the co-product which is different from what you've heard in the past about changing the base product of ethanol. This is not about cellulosic ethanol anymore or anything remotely like that. We are in discussions with some of the largest users of high protein feed products all over the world and believe whether in pet food, poultry, swine, beef and especially aquaculture, we know you'll be surprised about the ever-increasing value discussed around this new product that we will soon be making. This is why our optimal aqua venture is so important. We have a team working with some of the largest aquaculture companies in the world designing trials for this new product and how it will be included in aqua diets.

We see more and more countries beginning to push back on soy-based feeds from Brazil and other global producers and moving more toward corn based products. We just opened a world-class aquaculture laboratory and testing facility in Shenandoah, Iowa and will begin to directly feed different species of fish with this product we are producing in Shenandoah very soon. This commercial laboratory will not only be for internal validation but also for third parties to validate feed formulations for their own use. We believe this is one of the first fully integrated facilities in the United

States in existence today.

When we look at the projects we have going today and a margin curve heading in the right direction, our appetite to sell additional assets has diminished, but we still continue to consider opportunistic transactions at the right value. Our balance sheet has allowed us to be patient around divestments. We certainly will keep our options open, but our employees and management team are improving efficiencies, lowering our operating and overhead costs and coming with a plan -- coming up with a plan to roll out high protein technologies through the whole platform in the future without ever stressing the balance sheet.

In closing, the last couple of years have been challenging. We believe we have done our best to be transparent with everyone as we have navigated through this difficult environment. We're certainly excited about the future, as we transform this company into the next decade.

More importantly, we're optimistic with positive margins, lower costs, lower stocks overall in the market, and even the most important thing that we want to talk about, which is we are almost $1 billion of debt less than this time last year and we think that's a very positive for our shareholders.

So thank you for joining our call today. And now, I'll ask Liz to start the Q&A session.

(Question And Answer)

Operator

(Operator Instructions) Our first question comes from Adam Samuelson with Goldman Sachs. Your line is now open.

Adam Samuelson

Yes, thanks. Good morning everyone.

Todd Becker, President, Chief Executive Officer and Director

Good morning, Adam.

Adam Samuelson

So, Todd, A lot of moving pieces in the quarter and in the portfolio, and I'm just hoping maybe you could just rank order from a capital allocation front from here, how we should be prioritizing share repurchase, Project 24 investments and kind of what the actual cash outlays of those are? High protein -- high protein feed and kind of the size of the capital investments that you've got on the horizon over the next 12 months. And then I have a follow-up just on the market.

Todd Becker, President, Chief Executive Officer and Director

Okay. So, first and foremost, Project 24 is the single most important use of our capital today, and that's where the first dollar is going to go to, as we continue to accelerate -- try to accelerate this project. As we mentioned, we have three of them that have started engineering and construction, three more of them. And we are finalizing some of the plans for Madison and Mount Vernon as well. And so, first and foremost, we have indicated that that project will be somewhere between $50 million and $60 million of CapEx related to Project 24 and other CapEx related to that would be $15 million as we upgrade other things in the plant that need to get -- plants that need to get up upgraded. For example, when we did Wood River, we upgraded the cooling tower that needed a -- install was in bad repair. So there's going to be a combination of somewhere between kind of $50 million and $70 million of CapEx in total needed to finish Project 24. And like I said, the first one is done and operating today. That's first and foremost.

After that then, we're going to finish Shenandoah's protein installation and we mentioned that that is going to be between $30 million and $40 million. And so, we've already paid for some of that, but we'll use capital to finish that project as well. And then from there really, we'll look at our balance sheet. We'll look at our cash flow generation and we'll look at our free cash flow generation, which is -- which we're in a position right now in the fourth quarter generating free cash flow again and we'll make a determination where we go next. Obviously, we have two paths with that and protein is a very important initiative. What we're trying to do on protein is to come up with creative ways to build this throughout our platform without stressing our cash balance and increasing our debt level significantly. So we're working on that.

And as you saw, and again, we don't -- we don't give indications of how and when we would use share repurchases. But as you saw, we stepped in when the stock got down to 30% of book value and continued to buy from there. We stepped into support the stock when it started to hit toward that $7 level. And again, I think in a cyclical business, you want to be very circumspect on when and how you want to use buybacks because obviously our stock went further and faster than we all thought it could go at the time, and we believe we stepped in at the right time especially seeing the forward curve. So we'd like to get a little bit more definition toward 2020 forward curve. You know in Q4, margins are positive still and what we would like to see is some more certainty around 2020 levels and that would allow us to step in and do some other things as well.

Adam Samuelson

Okay, I appreciate that color. And then, just on the market, as we think about the margin curve having flipped back into positive territory after better part of the year in the red, do we -- just what's your sense on the industry's ability to ramp back up production or the financing. Is the financing there? I mean, the EIA at the end of this week did have production up again sequentially. We're still trailing the prior year, but those year-on-year gaps are starting to narrow a little bit. What do you think -- where do you think industry production levels will stabilize and is that enough to keep stocks in check?

Todd Becker, President, Chief Executive Officer and Director

Yeah. I mean, obviously, we're coming into the winter season, so -- which slows down a little bit, although we still see some draws through the end of the year on the data. We're going to have to watch closely, I think it's not just going to be about whether you have enough money to run or start your plant back up. I think there is more to it in the eastern corn belt, is whether you're going to have the corn to start your plant back up or run your plant consistently, or whether you can actually afford to buy the corn in the eastern corn belt and I think that was a challenge of summon in third quarter as well. And so, I think the East is really where the we're going to watch closely on start-ups and shutdowns and I think that will be volatile into 2020 and I think as we move along further into 2020 that's probably going to be more of the up and down of the numbers. Then the plants that are down today, I feel like they're probably going to stay down because the consistency --

I think what the margin curve is telling us is we're going to give you a margin for 30 days, we might give you a margin for 60 days or it's not trying to incent production today to start back up but is trying to incent production to stay up. So we've seen margins over the last 30 days into those high single-digit levels across our whole platform higher at times.

Now we saw some days into very low teens. Some of our plants are much higher so our Shenandoah or an Obion has a very good margin. So it's the top 10% to 25% of this industry is just going to run and can run at these levels. And then it's really going -- it could be the bottom third of the industry and what happens there. So, while 10-10 may look like a big number versus the average of last year, the average of this year still a low number, 10,000 barrels a day. It's hard to call.

We believe the EIA continues to refine their numbers. But still has a flaw around the way that they measure terminal stocks, and you know up 700 down 700 that's probably, we're going to see a lot more of that because of the month -- they only measure terminal stocks on a monthly basis, not on a weekly like we do in our ethanol plants and so I still think we'll see volatility. As more importantly though, Adam, the market, the cash market, the physical market is extremely strong. When you look at a lot of these areas around the United States, we are trading at very high historical index value levels relative to what we've seen over that same period over last year, year and a half and that's what I've been saying as well as that the stocks and the margins weren't correlating very well with the way that we were seeing the physical values. And so overall, we still think the market will remain positive. But certainly we have to watch closely, on a weekly basis.

Adam Samuelson

All right. I really appreciate all that color. I'll pass it on. Thanks.

Todd Becker, President, Chief Executive Officer and Director

Thank you.

Operator

Our next question comes from Ben Bienvenu with Stephens. Your line is now open.

Tim Perz

Hey. This is actually Tim on for Ben. Thanks for the question, guys. What's the reasonable expectation for capacity utilization for the company and for the industry in 4Q? And then, what level of production do you think we need to see with the current domestic and export demand backdrop to keep the balance -- the market balance if China doesn't return to the market?

Todd Becker, President, Chief Executive Officer and Director

Yes. So for ourselves, our goal for the fourth quarter is to be at 90% or above on utilization. We think with Wood River returning and with Madison lining itself out, we will continue as we stated that we will run into that 90% to 92% of capacity. And depending on where the margins are and what might -- and how fast our OpEx per gallon comes down, we're going to continue to evaluate that, but that's -- the stated goal of the company is, we're just going to continue to run as hard and as fast as we can. And we believe that's the right way to look at it with the strength of our balance sheet. In terms of China returning or not returning to the market, obviously right now, the market is in a bit of a balance, you're up or down on stocks on a weekly basis.

More importantly, at 1 million barrels a day, that's not enough to not have the market continue to be tight, whether it's a 1.10 million or 980,000 or 990,000; all of those numbers are good. So at these levels, sub 10-20, sub 10-30 levels, we believe the market stays in check and continues to provide an opportunity for our platform to earn positive margin. Anything much above 10-30, 10-40 will start to have -- I think without China have a bit more excess of supply, so it's really up to this industry to maintain discipline around production levels and determine whether and -- how and where they want to earn a return, so that's our view on that.

Tim Perz

Okay. Thank you. And then, one other question, could you tell us where the company OpEx per gallon was for the quarter? Did the upgrade at Wood River have any impact or how should we think about that going forward into 4Q?

Todd Becker, President, Chief Executive Officer and Director

Well, because, it was a shutdown quarter, our OpEx per gallon is a bit higher, because looking at September, it was higher. And in July and August, our OpEx per gallon ran close to $0.27 to $0.275, and then in September it runs higher in October it runs higher because of shutdowns. We believe now in November-December, we'll return back to that $0.27 to -- between $0.27 and $0.28 a gallon which is still significantly lower than we have run ever in our -- in the past for many, many years.

And then with Wood River fully coming back online by the first quarter, we believe we'll be sub-$0.27 a gallon and start to move lower from there whereby June of next year, we will be sub-$0.24 a gallon. We believe the results of what we've done and everything that we've seen Project 24 is actually sub Project 24 at this point and we believe the platform can be below $0.24 a gallon, basis everything we now know about these projects and some of the things that we're finding out as we start Wood River back up and really get both sides operating. We've run at full rates and now we're just lining everything out at Wood River, but overall, within the next -- every single month, we should start to see declines as more and more of our plants start to come on with the projects. And I think when we get down to sub $0.24 a gallon, while there are plants below $0.20 today, in fact Shenandoah or an Obion runs sometimes below $0.20 a gallon.

We believe Wood River will be in that $0.21 to $0.22 a gallon puts itself into top 20 or 30 plants in the industry today. And then after that, the whole platform sub-$0.24 a gallon we believe firmly puts us in that top 25% range of this industry and that's with multiple different original technologies. But I think if you would ask anybody about our upgrades and I've asked the question, is this going to be as good as an ICM and there is some -- and the answer even though there's obviously some base technology still around the plant, the answer is it's good or better in terms of energy efficiencies, size scope and scale of some of the things that we put in and really redefining a technology on our plants going forward. And when we say while the base was Delta-T or Vogelbusch, the finish was ICM to bring them back into line with traditional ICM plants.

Obviously, there are some really great plants operating out there newer or vintage plants that have spent a lot of money to get below $0.20 a gallon operating costs. But overall, we believe that our platform will be highly aggressive in terms of our ability to compete with the very best individuals plants.

Tim Perz

Okay. Thanks a lot. I'll pass it along.

Todd Becker, President, Chief Executive Officer and Director

Thank you.

Operator

Our next question comes from Ken Zaslow with Bank of Montreal. Your line is now open.

Kenneth Zaslow

Hey, good morning guys.

Todd Becker, President, Chief Executive Officer and Director

Hi, Ken.

Kenneth Zaslow

I know your --, so I just wanted to get a better clarity, what percentage of the industry whose closed capacity will not come back? How much is permanent?

Todd Becker, President, Chief Executive Officer and Director

So we think the carrying capacity of the industry is a little over 1.1 million barrels a day today, maybe even to 1.150 million if you were going to run this industry all out. There is definitely companies, large companies that have said they're going to slow production and shut some production. I don't know how fast they will go come or not come back, I mean I think that if you look at the benefit of where we're running today for the whole industry versus coming back and be -- to the detriment of those companies.

I think people will stay disciplined in this million barrel range right now. So we're probably a 100,000 to 150,000 barrels a day offline and I think we have an opportunity to remain at these levels. We just have to watch it closely there are definitely plants that won't come back for a while, possibly even this whole crop year if you're sitting out in the East and having the inability to lock in your corn needs or your input needs and I think other plants may kind of come up and down depending on their ability too, so we're going to watch closely. As I said, I think the carrying capacity is 1.1 to 1.115 and -- or 1.15 and sitting here at 1 million barrels a day plus or minus I think is a good place to be, but we'll watch it closely.

Kenneth Zaslow

My second question is your increased the authorization of your share repurchases. I'm assuming there is still a commitment -- a pretty large commitment to keep on buying back stock at this rate. Is that a fair way to think about even though the stock appreciates? I think you've said that the stock is undervalued under -- up to '19. How has that changed or has it or are you still committed to buying back stock?

Todd Becker, President, Chief Executive Officer and Director

No, I think what we do and as we said, we're always going to be opportunistic buyers. If the market wants to go too far too fast in the wrong direction we'll step in and support the stock like we have over five years. We're not going to give anybody any path or insight to what -- how this authorization will be used except that I think it's positive that the Board authorized another $100 million addition to the first $100 million, although we do still have some left on the last. And as you know, and as you are fully aware of, cyclical companies move too far and too fast in the wrong direction. And well there is still some work for this industry to do. I don't think that -- I think there is going to be positives that we see and potentially some negatives and I think overall, we're on the right track and we have the authorization and we will use it as needed.

Kenneth Zaslow

And can you talk about the potential consolidation within the industry. Do you think that once -- if there is a trade deal and if there is a domestic policy that is stable, do you think that there would be a greater interest in the ethanol assets? And would you guys be open to discussions with that?

Todd Becker, President, Chief Executive Officer and Director

Yes, I think overall because of, again, the last year and a half what we were able to accomplish, whether it was selling assets, paying off our debt and putting ourselves into a really good position. And as a company, I think overall the industry didn't act quite the same way as we did, because we started our process many years ago, but I think overall, as we see some recovery, the conversations are going to start back up for consolidation and how that happens is going to be interesting to watch. If we have a strong domestic policy which we are advocating for -- if E15 or Unleaded 88 really takes off and we're starting to see even stations go to their mid-grade base fuel to be Unleaded 88 and not offering E10 anymore.

We're starting to see that phenomena happen. And we believe that overall when we see that happen, and if we have a positive China trade deal, and everything we're hearing is that if there is a trade deal struck and if it is coming out on agriculture, ethanol is on the list and they have been pressing hard for ethanol to be included in some way, shape or form. I think you have -- but I think even more importantly the consolidated and the interest in these assets can, is going to come from the protein component that is going to roll out across this industry in the next five to ten years. It's extremely expensive, but I don't think you can discount the revaluation of an asset when you put protein on top of it to be much more like a soy crushing plant and much less like an ethanol plant, because the value of the protein today, basis the contracts that we have put in place to start, as a starting point, adds $0.15 a gallon, in our view, of profitability to a plant.

That doesn't even include the uplift that you're going to gain as this product moves through different species like aquaculture and even higher value pet foods. And what we wanted to do is show the value of the product in this first off-take agreement, and by the way show that we can get off-take agreements for our product that's made in an ethanol plant because it's such high quality. And while there is only a few plants producing this product today, it's highly intriguing especially in aquaculture and pet food around the world. And so, that's step one of this product. Step two of this product is there is technology that's being developed today and even on the shelf that is increasing the value of this protein through enzymes and yeast and other technology from 50 -- from 50 to what we believe is on a path to 60 pro which would radically reevaluate an ethanol plant to be a highly sophisticated protein machine because when you start to get to mid-50s pro or high-50s pro, the product all of a sudden isn't just a premium to high protein soymeal but it's starting to approach corn gluten meals and fish meals.

And then beyond that, there is a third leg of even novel ingredients that are going to be developed out of this product. Again, early days but everything we're seeing around this strategy, we believe, can radically transform the value of the whole industry, not just Green Plains. But again, this is -- this isn't something you could just market as a commodity. You have to have very specialized sales people, nutritionists, we have world-class scientists now traveling the world to sell the products for us. And then, obviously the integrated aqua lab that we have in Shenandoah, first of its kind where people from all over the world are interested in using that to develop basically diets around this product. So this is a revolutionary product. Again, lot to be proven you got to spend a lot of CapEx, you got to build -- so you got to certainly build it out and have a sales force and not degrade the value of is in any way, shape or form. That's when I think consolidation probably could happen down the road, where it may leave -- it may leave the oil guys or the refiners behind who said I'll wait for the right time to buy an ethanol plant and some have bought ethanol plant and have may move more into the highly specialized feed and protein providers around the world that would want to consolidate an ethanol plant.

Kenneth Zaslow

My last question is it -- are you able to accelerate this pace to which you move to the protein, given the capital requirements. Is there a way to accelerate that?

Todd Becker, President, Chief Executive Officer and Director

That's what we're working on with not just our own balance sheet to make sure it never gets stressed again. But with nutritional partners, with producers around the world, with feed mills around the world, feed users around the world, with potentially even private investors to invest into the projects where we could get control or we'll control them, but we could roll it out faster and then potentially get them back later on. We're going to do everything we can to roll this out as fast as we can, but first and foremost, obviously we want to continue to drive the value of the base business higher.

You have to make -- in order to make protein really well, you better make ethanol really well and be in the top 25% to do that as well, because protein won't save a bad ethanol operation. But you have to make your base product really well, which is what we're doing with Project 24. But our goal is to accelerate the build out of the protein across all of our plants, but more so accelerate our technology in nutritional partnerships where we can access the capital, because once you start getting off-take agreements, you know that financing changes rapidly because you do have guaranteed returns -- guaranteed minimum returns on these assets and that's kind of what we're trying to set up today where we can accelerate the build through gaining access to capital because we have nutritional and feed partnerships and offtakes.

So our goal is to, in the next two to three years, potentially build this whole platform out and it's a very aggressive and a very awesome program. But I think if we can get this done correctly. We'll find the money for this, because we'll have the partners that want the product and want it at a very high value.

Kenneth Zaslow

Great. Appreciate it. Thank you.

Todd Becker, President, Chief Executive Officer and Director

Thank you.

Operator

Our next question comes from Eric Stine with Craig-Hallum. Your line is now open.

Eric Stine

Good morning. I know you touched on utilization for fourth quarter, but just -- you know just thinking about 2020, I know that you're targeting 90% plus and you're done kind of taken the hit for the good of the overall industry. But you're also signaling that you're going to be pretty -- go pretty heavy on Project 24, so balancing those two things out, how should we think about utilization in 2020?

Todd Becker, President, Chief Executive Officer and Director

Well, to give you an example. Wood River has now been down for about seven days, eight days before we started bringing it back up as we -- we're building Project 24 around the operating plant. So if -- you don't have to take a plant down significantly -- for a significant amount of time to implement the project and get it started because all basically get piped and lined in and it just starts up as a completed plant. So, utilization are a goal even with Madison still starting up and Wood River still coming online, we're still going to run toward that 90% for this quarter. So that just tells you that as we bring up the other plants, it's really much more of normalized shutdown, maybe add a week, but's it's not going to take -- it's not going to take weeks or months to start these projects up.

Eric Stine

Okay. That's helpful. Maybe last one for me, just on the export side. I know the industry is looking for new markets and some talk or recent talk that Mexico potentially regulators looking at allowing E10 in their three big cities. Just curious if you're hearing anything on that and if that is the case, when that could potentially start to have an impact?

Todd Becker, President, Chief Executive Officer and Director

I think we're starting to see an impact already. The Secretary of Agriculture and a trade mission is down there actually today, and they're discussing how to implement this policy broadly across the country and how the US could play a role in helping them do that, and how we can obviously affect trade with each other. And so that's happening as we speak. We've spent a significant amount of industry time. The Grains Council is deploying lots of capital, the US Grains Council, in trying to get ethanol into that market.

And I think we're as close as ever. Everything always takes longer than we wanted to, but we're starting to see real change with real retailers down in Mexico and starting to get into some of the terminal capacity as well. So I think it's coming, and I think it could be pretty dramatic effect on -- there could be a dramatic effect on our exports. But again, it always takes longer than we wanted to, but that is a market that will be much like Canada. Canada is one of our biggest trading partners for ethanol and we expect Mexico to be along right side of them as well.

Eric Stine

Okay, thanks a lot.

Operator

Our next question comes from Pavel Molchanov with Raymond James. Your line is now open.

Pavel Molchanov

Thanks for taking my question. One more about China, if I may. If there were to be a deal, and as you said, ethanol is likely to be encompassed within it. Realistically, how quickly would we see resumption of deliveries into the Chinese market?

Todd Becker, President, Chief Executive Officer and Director

I think it would be right away. They have the capacity to receive it. We've got the capacity to ship it. We've got stocks that can move very quickly. When they come in to buy ethanol, if they want it shipped as soon as possible, they could start loading boats within 30 days and that's not going to be an issue. They've got the capacity to unload it as well and they've had the infrastructure needed to run a very large program. And so it could be very, very fast. And much like the soybean program is as well, once they buy soybeans, it's very fast to start shipping them. There is definitely capacity ready to go.

Pavel Molchanov

Okay, understood. Let me also ask a question about from a GPP perspective. So it's been at this point, I think 2.5 years since the last dropdown or asset acquisition by GPP and you mentioned in the press release that GPP turned down a recent expansion opportunity. What's kind of holding back getting some increases to GPP's asset base?

Todd Becker, President, Chief Executive Officer and Director

Well, we've tried. I mean we were in multiple terminal deals. One terminal deal where the government said no, because of the way that they thought the ethanol market would change in Texas and in Oklahoma when we were trying to buy two very large terminals with a partner. Then we've looked at other terminals that never that weren't -- we were not able to bring to conclusion because either they didn't sell or they didn't meet our standard. And finally, the export terminal, I think from that perspective, it's just relative to the price that we received versus the opportunity, the Board of GPP did the right thing. This Board is -- this Board at GPP and us as the largest unitholder, we want to grow GPP in the future.

I think and this is good for the GPP unitholder, we wanted to make sure that the base business of ethanol and production we were bringing our volumes back up into that 90% range plus so that we know that the distribution was solid, and we believe that's very important and we've never changed in the last 2.5 years from that. So if you kind of recall the history of GPP, we're basically the last MLP. One of the last two or three MLPs that made it to the public markets. After that, obviously, there was a big decline in MLP interest because of multiple factors including tax policy. Then from there we've been dealing with an underlying ethanol downturn. I think as we kind of come through all of those, clean up Green Plains balance sheet which is, which I think was hurting Green Plains Partners because of some of the risks that the market perceived. I think overall, is we have a much cleaner, larger parent -- larger Green Plains Inc that's very positive for Green Plains Partners. And we will start to looking at expanding Green Plains Partners as well in multiple different verticals and we have a Board.

Obviously, if you look at who's on our Board there as well, very interested in doing that. They didn't need just to be on a Board, just so we can pay a dividend on some ethanol volumes. They have a very strong view that this is a great partnership to grow from. But again, not a lot of transaction taking place and really not a ton of opportunities to acquire, so we have to be patient, but overall, we think we have the dry powder to do what we need down at the MLP.

Pavel Molchanov

Appreciate it.

Todd Becker, President, Chief Executive Officer and Director

Thank you very much.

Operator

And our last question will come from Selman Akyol with Stifel. Your line is now open.

William Axmacher

Hi, this is Will on for Selman. Just going off of the last question about growing GPP and the dry powder, I was wondering if you could just kind of expand on you know any opportunities, I know you said that they were few and far between, but I was just kind of hoping you could expand on that a little?

Todd Becker, President, Chief Executive Officer and Director

Well, I mean we continue to search for businesses that are related in some way, shape or form to what GPP does today, whether it's in traditional motor fuels or ethanol or a combination of what could we feel like we could be impactful to that business, by having the 1 billion gallons plus of ethanol behind the platform to do other things beyond just shipping through our own tanks at the ethanol plants.

And so that's the unique opportunity that we're looking for, not to say that we wouldn't look at other businesses as well, but we want to make sure is within the vertical. So we don't get -- again what we spent a lot of time is, I think was basically looking at expanding our portfolios, diversifying of which we weren't getting the credit for at Inc and we feel like we want to make sure that if we do something at GPP, we don't diversify away from our core competency around motor fuels and ethanol and that's really where we want to focus on for GPP. And we are looking for opportunities like that, and again I think there is going to be more coming out. It's been very slow in terms of some of those opportunities, just because of the slow MLP market in general. But overall, I think there is going to be some things that are going to come out and we'll continue with everything that we can, so we did not go public with GPP even as -- we could just sit here and clip a coupon off of an ethanol plant shipping through the GPP terminals at the ethanol plant. That's not what the -- that's not why we want to establish GPP. And so our goal is to continue to grow that business.

William Axmacher

Okay, thank you. And then is there any update on the MVC payments through GPP from GPRE by chance?

Todd Becker, President, Chief Executive Officer and Director

On the MVC payment, Patrich, if you want to comment on where we're at on the MVC payments? Is that what the question was? We could barely hear you.

William Axmacher

Yes, yes.

Todd Becker, President, Chief Executive Officer and Director

Yes, the MVC payment where we're at to finish those out for '19 and '20?

Patrich Simpkins, Chief Financial Officer

Yeah. So they were -- today, of course the MVC payment is approximately 84% of production levels. As you may recall, to the extent that there is a credit due GPRE for the fact that they've paid at the MVC level, although they may not have produced at the MVC level, that credit effectively accrues and then when they overproduce that basically work that credit off and that credit lasts for about 12 months. Today that credit is about $7 million. That $7 million will actually become lower over course every quarter through 2020. I would expect by mid-year 2020 that that credit will be completely off the books of GPRE and any over production starting in Q3 will basically be to the credit of GPP. That certainly could happen sooner depending on the run rate at GPRE. But right now, we would expect that to be kind of coming in the end of Q2.

William Axmacher

Okay. Thank you.

Patrich Simpkins, Chief Financial Officer

You bet.

Operator

And that will conclude today's question-and-answer session. I'd like to turn the call back to Mr.Becker for closing remarks.

Todd Becker, President, Chief Executive Officer and Director

Yes, thanks for everybody for coming on the call. We finished the quarter in a position, I think, that sets us up well for the future. Our debt is significantly decreased. Our net debt is zero against anything recourse to the parent. Everything above that is either at the MLP or in working capital financing. We believe that everything we've done around our Project 24 and portfolio optimization plan has set the company up well for the future. We believe that the strategy around our protein initiative is solid and continue to want to invest behind that in the future as well, making sure that we continue to do all the right things around supporting the stock price. We finished a strong October, we saw margins in the high single digits, low double digits across the platform. November continues to remain positive into mid-to-high single-digits, and then we'll wait to see where December settles out.

Well that still remains somewhat undefined as the market will fully go back to the spot type stuff that we've seen over the last several years before the downturn. And so, overall, it's nice to see this. We remain optimistic that the discipline in the market will remain. And overall, if we can just get a few things out of the EPA around domestic policy, get E15 rolled out, and get China back into the market, there will be a very different 2020 than it was a 2019. And we're very excited about that. So we appreciate everybody coming on the call today and we'll talk to you next quarter. Thanks for all of your support.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.