Q1 2020 Earnings Call

Company Participants

- Patrich Simpkins, Chief Financial Officer
- Phil Boggs, Senior Vice President - Investor Relations and Treasurer
- Todd Becker, President, Chief Executive Officer and Director

Other Participants

- Adam Samuelson, Analyst
- Benjamin Bienvenu, Analyst
- Craig Irwin, Analyst
- David Driscoll, Analyst
- Eric Stine, Analyst
- Kenneth Bryan Zaslow, Analyst
- Laurence Alexander, Analyst
- Pavel Molchanov, Analyst

Presentation

Operator

Good morning, and welcome to the Green Plains Inc. and Green Plains Partners' First Quarter Earnings Conference Call. Following the Company's prepared remarks, instructions will be provided for Q&A. At this time, all participants are in a listen-only mode.

I will now turn the conference call over to your host, Phil Boggs, Senior Vice President, Investor Relations and Treasurer. Mr. Boggs, please go ahead.

Phil Boggs {BIO 21345325 <GO>}

Welcome to Green Plains Inc. and Green Plains Partners' First Quarter 2020 Earnings Call. Participants on today's call are Todd Becker, President and Chief Executive Officer; Patrich Simpkins, Chief Financial Officer; and Walter Cronin, Chief Commercial Officer. There is a slide presentation available, and you can find the 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 today's press releases and the comments made during this conference call and in the Risk Factors section of our Form 10-K, Form 10-Q and other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

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

Todd Becker {BIO 16250416 <GO>}

Thanks Phil, and good morning everyone, and thanks for joining our call today. For the quarter, we reported a net loss of $16.4 million or $0.47 a diluted share which includes a write-off of goodwill of $24.1 million that affected EPS negatively, as well as a tax benefit related to the CARES Act.

The goodwill write-off was a non-cash adjustment and has no impact on our financial liquidity. And at this point, we have no goodwill associated with Green Plains Inc., left on the balance sheet. In addition, we expect the tax benefit to result in a cash refund of $40 million to $50 million late in the third quarter or early in the fourth quarter. This will surely be a benefit to Green Plains liquidity as well. We reported $2.7 million in adjusted EBITDA for the quarter. The only impact, that was adjusted was goodwill, so the adjusted EBITDA is an operational number, the business achieved. The financial results greatly exceeded the negative market during the quarter due to our risk management program, where we were able to lock in margins. We are continuing with this program in the second quarter, which we are achieving better margins than the current market as a result.

We produced approximately 240.5 million gallons of ethanol, which put us at an 85.9% utilization rate for the quarter, while this was lower than our stated goal of 90%, it was the highest utilization rate in the past nine quarters. January ran at a record rate but the back half of the quarter was impacted slightly by planned maintenance and downtime to complete planned Project 24 technology upgrades. Superior and Fergus Falls are running well, and has shown reduced energy and water usage and a lower operating cost per gallon than we expected. So we're very happy with these results. Due to the current margin environment, which has been negatively impacted by the ongoing COVID-19 pandemic, much of the industry has gone offline or reduced their run rates.

We are proactively managing our current utilization, but will not reveal our run rates during the quarter, as in the past the quote and quote Green Plains slowdown was used by others to determine their own run rate and proved to be a disadvantage for us. The industry has reduced its run rate at a record pace never seen before, and it's quite frankly it's about time. We will exercise our operational discretionary at each of our plants in order to maximize our variable contribution margin, and we will make decisions at each facility, that best maintained our cash liquidity going forward. Since we have done this many times before, our ability to be agile and maintain strong liquidity is our advantage in times like this. The consolidated crush margin for the first quarter was negative $0.01 per gallon, with the spot crush declining sharply late in the quarter, as the crude oil war ensued and the COVID-19 began to impact fuel demand. While certainly not a number we strive for, it was certainly better than the daily average market. While the industry production levels have dropped to almost 500,000 barrels per day, inventory levels continue to be at near or record highs.

We will continue to focus on the things within our control, reducing operating expenses through our Project 24 initiative and driving additional value through our protein transformation and other product development. I'm very happy to report that our first high protein facility in our Shenandoah, Iowa location started up during the first quarter and we have been scaling-up to full production rates within the past week or two. Our partners at Fluid Quip, the various contractors and our internal team have done a phenomenal job, completing this project on budget. And we are setting the standard for quality control for the customers of this valuable product.

Green Plains hit a new high-value product that is been used in companion animals and aquaculture markets. As we continue to line out the plan, we will quickly be involving our biotechnology partner, to continue to upgrade the nutritional properties in order to move up the price curve. Project 24 modification that our Fergus Falls, Minnesota and Superior, Iowa locations were completed and the results mirror the success we had at Wood River. We continue to be excited about this project and are anxious to roll-it out across our remaining non-ICM plants. The operating expense reduction put these two plants squarely in the top-quartile of the industry and leaves us confident in our ability to reach our goals for the platform to be at or below $0.24 a gallon, once all are completed. Most interesting is that these were both original Delta-T, 50 million gallon plants and are now each below $0.24, operating cost per gallon, actually at par or below some best in class ICM of 100 million gallon plus facilities.

We are operating these plants, much like an ICM plant, as we speak. We are currently evaluating our capital expenditure plans for the remainder of the year. And Patrick will have a little more on this later in the call. Green Plains Partners reported $13.4 million of adjusted EBITDA for the quarter. The recent 75% reduction in the distribution results in a coverage ratio of four times for the first quarter and 1.24 times for the trailing 12 months. This distribution cut was to support a more rapid pay down of our debt. But -- as we have the goal of being debt free in 18 months, at which time we will look to increase cash returns to unitholders again.

Lastly, Green Plains Cattle Company had another record quarter and we expect the remainder of the year to be strong as well. This allowed a dividend to be paid to all partners in the second quarter, another factor strengthening our liquidity. We are closely monitoring the current situations of packing capacity being slowed or shut. But since we have supply agreements in place, we have not seen material impacts to our business. So as you can see, our theme is to constantly focus on liquidity and we believe we are in a good position to weather this market as a result of our risk management programs, reducing our operating cost per gallon, new products like high-protein corn meal and our great results from our cattle investment.

Now I will turn the call over to Patrich to review both Green Plains Inc and Green Plains Partners financial performance and I'll come back on the call to talk about the remainder of the year, some policy update and provide some more details on our protein initiatives.

Patrich Simpkins

Thank you, Todd. Green Plains Inc. consolidated revenues were $632.9 million in the first quarter, up $194.2 million or 44% from the first quarter a year ago. The increase in revenue was driven primarily by higher ethanol production rates, as compared to the first quarter of 2019. Our production run rate was 85.9% of capacity in Q1 2020, compared to 56% run rate for prior year first quarter.

Our consolidated net loss for the quarter was $16.4 million included a non-cash pretax goodwill impairment charge of $24.1 million, comparing favorably to a net loss of $42.8 million in the first quarter of 2019. Adjusted EBITDA for the first quarter was positive $2.7 million compared to an adjusted EBITDA loss of $18.3 million for the same period year ago. For the quarter, our SG&A costs for all segments was $21.6 million, up $3.2 million from $18.4 million in Q1 of 2019, driven primarily by higher compensation cost related to one-time true-up of our annual incentive plan.

Consolidated interest expense for the Company remained relatively unchanged compared to the prior year quarter at $9.7 million. CapEx for the first quarter was about $34.3 million with approximately $6.8 million of maintenance CapEx and the balance of $27.5 million being allocated to growth capital primarily for Project 24 and our high protein production facility in Shenandoah, Iowa. In February, we provided an overview our capital expenditure plan for the year with a target of $100 million to $120 million focused mainly on maintenance CapEx, Project 24 and our high protein initiative. However, given market conditions we've trimmed back our planned capital allocation by nearly 50% with an overall target of $50 million to $60 million for 2020. For the balance of the year, our capital expenditures will focus on our central maintenance and our Project 24 initiative. Any additional spending related to the expansion of our high protein development plan will be driven by the successful completion of potential financing arrangements.

On Slide 8 of the investor deck, you will see our balance sheet highlights. We had $252 million of cash and working capital, net of working capital financing at the end of the first quarter compared to $373 million for the prior year quarter. The balances for 2020, exclude our cattle business that was deconsolidated in September of 2019. Adjusting for the cattle business, the prior year cash and working capital total would have been approximately $316 million, with the difference between Q1 2020 and Q1 2019 being attributable mainly to a change in cash of $43 million and net working capital financing.

Our liquidity position at the end of the quarter remains solid with $205.5 million in total cash, along with approximately $260.8 million available under our working capital revolvers. This amount does not include availability under our credit facility of the partnership. For Green Plains Partners we had 240.5 million gallons of throughput volume at our ethanol storage assets during the quarter, which was up 85.4 million gallons or 55% from the first quarter of 2019, as a result of higher production rates at Green Plains plants. The partnership reported adjusted EBITDA of $13.4 million for the quarter, consistent with the $13.5 million reported in the first quarter of 2019.

Distributable cash flow was $11.4 million for the quarter, also inline with the same quarter in 2019. With a reduction in our distribution to $0.12 per unit declared on April 16, our results of coverage ratio increased to 4.03 for the first quarter. On a last 12-month basis, adjusted EBITDA was $53.8 million, distributable cash flow was $45.4 million and declared distributions were $36.7 million, resulting in a 1.24 times coverage ratio. Going forward, at $0.12 per unit, the partnership will retain $34 million annually, that will be allocated to amortizing the partnerships outstanding debt.

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

Todd Becker {BIO 16250416 <GO>}

Thanks, Patrich. The industry is facing unprecedented assault from two black swan type events. First, the failure of OPEC plus in early March, resulted in a swift decline in motor fuel related prices. This was quickly followed up by the beginnings of a wide scale shutdown of the U.S. and global economy related to shelter in place orders, across the country and globe resulting in significant declines in demand for motor fuels and bio fuels. Combined with the macroeconomic impact from the crude oil situation and then you have a perfect storm.

At Green Plains, we have acted to keep our employees safe through various work from home measures, as well as to support our local communities through our contributions of our FCC Grade alcohol for the production of hand sanitizers and cleaning agents to the State of Iowa and Nebraska and the University of Nebraska for use in hospitals and care facilities. In addition, we donated ground beef to local food banks and charities and gave every Green Plains employee 40 pounds of ground beef to take some of the pressure off our employees and their families. When the pandemic comes through nano people begin to drive again, biofuels will continue to be an important and strategic part of the fuel supply due to the octane value. So the top quartile plants -- and those plants that have diversified margin streams, will most likely continue to operate during these challenging times. This is why we continue to focus on these areas.

While we continue to wait for China to re-engage in the ethanol market, we will work to drive this EPA administration to push for the continued rollout of E15, as we need better labeling, any final EPA ruling to allow E15 through an E10 pump. Additionally, we believe the future could look a little different as companies and individuals look for ways to avoid mass transit and air travel, and drive more, which could be a potential tailwind.

Our protein and Project 24 initiatives are instrumental to the future direction of this company. We will continue to work through our total transformation plans for Green Plains. At Shenandoah our early indications from production -- our protein levels have been consistently been around 52% and as high as 53% without any help from outside biological upgrades. This is purely mechanical. In the coming months, we will be working with our biotech partners to continue to enhance the value of this product through enzymatic and biological solutions in order to maximize the nutritional profile. This will enable us to accelerate towards the $0.20 incremental margins and even greater as we advance up the J-curve that we discussed with you on the last call. It's been very exciting to watch this process unfold and we hope you -- and we hope to be able to host an open house someday, to show you all what we've been seeing every single day.

Additionally, we are continuing the engineering for the second and third high protein locations. The full construction of these facilities is somewhat depending -- dependent on arranging additional financing that we should have won constructed within nine to 12 months, once the financing has been lined up. We continue to range these agreements and hope to be able to announce that shortly as well. But to be clear, as there was some confusion on the last call, we are focused on arranging project level capital to support these initiatives and we will use minimum cash near term on construction. The balance of the funding will eventually come from profitability of protein production, as it become self financing.

Our aquaculture trials to validate novel ingredients that will be used in a combination with our high protein products, as either a complete feed or pre-mix are continuing. We are seeing good progress that only adds to our conviction that we are on the right path to transform this company to be a world-class protein provider. Our York, Nebraska facility has been instrumental in providing FCC Grade alcohol for the production of hand sanitizers and cleaning products across the U.S. and globally. While we were pleased to be able to support our local communities, through much needed donation, this facility also sell this product commercially.

The FDA approved FCC Grade alcohol manufactured at Green Plains York, Nebraska is distilled specifically for the production of cleaning products and disinfectants and is higher in purity and quality than traditional fuel grade alcohol and ethanol. Green Plains does not and will not sell any fuel grade ethanol or alcohol for use and disinfectants or sanitizers. We believe fuel grade ethanol contains certain properties that make it unsuitable for these applications. Interest in our product at York has been strong in the near term and should contribute positively for our second quarter. In fact, many sales we make are replacing batches of sanitizer and cleaning products that are being rejected for quality from some of these fuel grade plants.

The York has made both beverage grade and FCC Grade alcohol in the last 20 years, but currently focuses on FCC Grade at this point. We have now completed three Project 24 locations and we will have a fourth completed in the next two or three months. So, we are nearing the halfway point. As we transform our platforms to sustainable ingredients and protein production, Project 24 also enabled our locations to reduce their environmental footprint. Running our plant at the lowest cost structures is key to setting up the next step, as we transition into adding high protein production capabilities across the platform. While I can always talk about a lot of other talk topics, we are squarely focused on maintaining strong liquidity during these unprecedented times and managing risk. By selling the $780 million of assets over the last several years which reduced our debt balances by almost $1 billion. We are in good shape to weather this storm as well. We are agile on pulling on the right levers that have put all of us as shareholders and stakeholders in a better situation than you probably expected. Our employees are committed to operating safely, squarely focusing on details that matter every day. And I want to thank them as well for their commitment to Green Plain's as we continue to transform this company. Thanks for joining the call today, and I'll ask the Q&A to start.

Questions And Answers

Operator

(Operator Instructions) And your first question comes from Adam Samuelson with Goldman Sachs.

Q - Adam Samuelson {BIO 17060388 <GO>}

Thanks, good morning everyone of everyone. Hope, everyone is well. So I guess my first question is related to the ethanol market environment. Todd, just thinking about the decline in production that we've seen today at the industry level -- margins actually in the last couple weeks seem to have gotten a little bit better, because of the strength in dried distillers prices. Can you help us think about, kind of what the -- you think the shape of recovery, it looks like on the production side at the industry level, gasoline demand picked up last week up of extremely low levels. But do you think the ethanol industry is going to lag that by a few weeks? And do you think that all the plants can actually come back on -- if the margin structure makes it so and the demand is there.

A - Todd Becker {BIO 16250416 <GO>}

Yeah. So that was basically how we're looking at it, has margins have gone up in the last few weeks, but still plenty of plants are still below variable comp -- in negative variable contribution area. And DDGs have actually come off, while our margins have actually gone up because corn has broken back into its recent lows and ethanol seems to be stable up at these prices. So when you look at that, the shape of the recovery from our perspective is -- I think we will probably lag driving demand as some plants have furloughed employees, some plants have gone to cold shutdowns. But as we know the industry can move very fast, we're in -- when we take our plants and adjust our capacity, we go into much more warm shutdowns, ready to act at a moment's notice, but I'm not sure everybody else is like that.

So I think what you saw last week was the first big draw on EIA stock -- reported stocks of 1.3 million barrels. I would estimate, we'll probably see more weeks of draws coming, but then will level out and it really is just going to be a matter of watching, driving demand and figuring out when does -- it is ethanol lagging it by too much. And last week, we finally saw that a little bit, which improved the margins, but there is still well over half this industry that negative variable contribution margin, if not greater than that. And I think the industry has learned a lesson that while you can be positive variable contribution you're still losing money, and you're still burning cash. And I think that's the key to what's going on today.

So you actually make more money in many areas slowing down your plants or shutting down your plants. And I think the industry has learned that as well. So from our standpoint, when we look at it, we have very little interest left from our convertible debt. We have $14 million a year of interest and that's really the main commitment that we have. And then after that, it's really working capital financing and other areas. But the maintenance -- so that's -- from our perspective when we look at our liquidity -- when we look at what we're running, what we're not running, which we're not going to report to the market right now. We think we're in pretty good shape. But I think -- I think the recovery in gas demand will outpace potentially the recovery in ethanol production.

Q - Adam Samuelson {BIO 17060388 <GO>}

Okay, that's all. It's very helpful. And just on the liquidity point, just with the revised CapEx plan, how much of Project 24 would be left to finance and spend at the end of calendar '20? And any updates on the debt maturity at the MLP level?

A - Todd Becker {BIO 16250416 <GO>}

Yeah, so in terms of CapEx for Project 24 at the end of 2020, we'll have a little bit left but not very much. We should be done with most of the projects that we want to do during this year. And so we're focused on that, we really will have Madison and Mount Vernon left as big projects and then a couple of smaller ones. We'll watch closely, what we want to do from that perspective. But, I think it's critical that those plants get down into that low '20s areas as well.

Project 24 has exceeded all of our expectations, in fact, we're kind of on Project 24 2.0, because what we learn in 1.0 Wood River, we drove to better outcomes in Superior and in Fergus Falls, I mean these are 50 million gallon plant, Delta-Ts are running at 100 million gallon plant ICM, operating costs or lower. We basically have seen even one of those two plants at $0.23 a gallon, which is not inconsistent with so much better quality -- higher quality plants. So we've cracked the code from that perspective, but again we're going to watch closely. If the market doesn't recover, we can always push those projects off. But right now, we're still planning on that for -- and I'll let Patrich comment on that.

In terms of the debt maturity for the MLP, where we're very close with most of the lenders, today, we have a few left that are still negotiating some terms. But our goal is to have that done by next week or so, and get that rolled, and we think we're in pretty good shape to do that as well. So I'm talking about end of the year, CapEx with or without Project 24, what would be left over.

A - Patrich Simpkins

Yeah, I think in that -- in that forecast of the 50 to 60, I mean a couple of things that Todd pointed out. Madison and Mount Vernon depending on how Q3, Q4 go and then potentially York. The reality is, York is doing so well right now. We really wouldn't do anything with Project 24 as it stands right now. So York would probably be the last plant that we would do. And under the capital plan that we have right now, we could get a good way through Madison and Mount Vernon by the balance of the year. So we have as Todd alluded to, would have very little left rolling into Q1 2021.

Q - Adam Samuelson {BIO 17060388 <GO>}

So it's very helpful color. I'll pass it on. Thank you.

A - Todd Becker {BIO 16250416 <GO>}

Thanks.

Operator

Okay. And your next question comes from the line of Benjamin Bienvenu with Stephens Inc.

Q - Benjamin Bienvenu

Hey, thanks, good morning everybody. I wanted to ask about, kind of following up on Adam's question, just around the shutdowns in -- if you could maybe elaborate a little bit about in this particular shutdown environment, obviously the severity of the losses is more significant. But is there any different structurally about the market that you think would allow some of the production to more permanently stay offline. We saw a big drawdown in production last year, at that kind of trough in September and that came back pretty quickly. So is there anything that would prevent that from happening again?

A - Todd Becker {BIO 16250416 <GO>}

This is an industry that is a renowned for bringing it all back up very fast. I do believe though that some of the -- some of the lower quartile plants have to potentially raise liquidity to come back on. So I do feel like some of those lower quartile plants would be the slower to return than historically some companies have announced longer shutdowns to be very specific that they are going to be down for three or four or five months. And furloughing -- once you furlough and you have to start back up quickly that's a whole another -- that's a whole another process. So I'm hoping that, the industry has learned its lesson, but -- and that's I think, in many areas of the industry, we have. But again is that, we'll wait and see on that. But I do think though, if we go back to 80% or 90% of normal driving, the ethanol industry, depending on the margin, probably has enough to come back in that perspective. Anyway, so I don't know if that will bring those bottom quartile plants up as fast as time, but it's certainly possible.

Q - Benjamin Bienvenu

Okay, that's helpful. And then a bit curious to hear your outlook for corn, there has been a lot of moving pieces and that's all been a big piece of it, as it relates to potential planted acres. And what is your current house view on corn? And then if you could give us any update on how basis has been for you guys? And to what extent that potential pressure point has been alleviated over the last two weeks?

A - Todd Becker {BIO 16250416 <GO>}

Yeah, we have had a bearish view on corn. We have -- we constantly survey our plants and the crop went in at a record pace. And I think we're getting very close in many areas to being done. And I don't think we will see that necessarily in the weekly data, but it should be very strong. If not, next week will be very strong. Our view is, we're going to plant these acres as best as we can. It went in so fast, and there is really not a lot of time to change that. Our 97 million acres -- the 97 million acre number is, we're not in big disagreement with that. We've seen a lot of basis weakness on corn, because of the ethanol industry really backing out, you've taken off billions of bushels of corn demand, out of the market today. And it doesn't feel like a plant -- to earlier question, you're not seeing any strength from plants thinking about starting up.

So overall, we're having negative view on corn from these levels. We are not bullish on the corn basis in the United States right now. Although if you need corn, to run thereby, it's probably not as weak because the farmer is in the field and really it has control of this corn -- of the corn stocks in the United States. But ultimately the crops going in, the yield models are probably trending higher. And ultimately, the farmer will have to make a decision but that's probably comes after planting and into growing season a bit on when to sell those old crop stocks, but we've definitely added bushels to the carry-out. I think we'll see that every USDA report, through the end of the year for the '19-'20 carry out. And I think we're adding bushels to the '20 and '21 carry out. And I don't think the market is taking seriously enough -- we drop in demand for corn from the ethanol industry is slowing down. And in some aspects shutting down and waiting for China is not going to do come -- China will never be the answer for the U.S. corn market, if the ethanol industry is shut down or slowing down.

Q - Benjamin Bienvenu

Thanks so much. Appreciate the color. Good luck with the rest of the year.

A - Todd Becker {BIO 16250416 <GO>}

Thank you.

Operator

Your next question comes from the line of Eric Stine with Craig-Hallum.

Q - Eric Stine {BIO 15861874 <GO>}

Good morning.

A - Todd Becker {BIO 16250416 <GO>}

Good morning.

Q - Eric Stine {BIO 15861874 <GO>}

Hey, just -- so just wondering, on what you're seeing in the market in terms of your off-takers. I mean, I know you're not disclosing your utilization, and you've got a lot of it hedged. I mean, what are your challenges or/are you seeing challenges in terms of selling your product whatever level of that maybe, to refiners if they have no place to go with it. I mean in kind of that balance between forcing them to take product versus having to look towards other markets, obviously with the long-term relationship with that specific customer in mind?

A - Todd Becker {BIO 16250416 <GO>}

Yeah, I mean you see gas demand, so gas demand is going to mirror what we're starting to see in terms of our customers' ability to take product. And I think anybody in the industry, because we slowed down. The difference with this industry and maybe even what you're seen crude oil is that, this industry slowed down so fast. In fact, it outpaced demand destruction. And that's the first time in our history, we've done that. So it came offline so fast, that we really didn't see ethanol stuck anywhere, looking for a home. And we're kind of balanced right now. If you look at last week versus this week versus what's in storage versus what we're producing, we're actually kind of balanced in terms of what the refinery needs to take. And everybody is going to work with our customers on product and contracts -- and all of the above. And we really haven't seen distressed ethanol trains or distressed ethanol inventories, really hitting the market at any big levels.

I mean, we do see some basis weakness in some of the destination markets. But we are still selling some spot values, a little bit higher than we expect. So it's kind of a bit of everything out there. But overall we talked a little bit about seeing some force majeure. We had one, but then they basically backed away and really we have not seen a lot of that happening. But overall, I think we're in a balanced situation that what we're producing is what, what we're using at a 50% driving rate and probably going higher. And so I think from that perspective, we haven't seen a lot of distressed barrels. And it's been orderly in terms of working with our counterparties to roll or cancel product.

Q - Eric Stine {BIO 15861874 <GO>}

Got it. That's helpful. And maybe last one for me, just on the hedge -- I might have missed it. But did you -- did you disclose how much of second quarter you have hedged? How long that last or the level of production you have hedged? Or any color there would be helpful.

A - Todd Becker {BIO 16250416 <GO>}

No, we haven't disclosed that at this point. I mean, that's something that obviously is -- in the first quarter it worked pretty well. We continued it into the second quarter when we saw these outside factors hitting the market and felt like we wanted to do that, to protect our cash flows. Our view is that, what you saw in the first quarter, won't be that dissimilar to potentially what you see in the second quarter, and it could be slightly better than that. So I mean, we're in a pretty good situation from that standpoint. And some of the things that are hitting in terms of lower operating costs, the premiums on protein, a little bit of contribution from our York plant and so on. So I think overall, we're in pretty good shape for the second quarter as well, and even going -- going into their third quarter a bit. As we've -- obviously we're not going to give out our production levels, but you can assume that, some of our plants are slowed, some of our plants are shot and we've made adjustments. But it's something that we've been, we know how to do very well and we can move very fast and we could -- we can make sure that we protect our balance sheet at all costs, and some of our risk management and other initiatives have helped that a lot.

Q - Eric Stine {BIO 15861874 <GO>}

Got it. Thanks Todd.

Operator

Your next question comes from the line of Pavel Molchanov with Raymond James.

Q - Pavel Molchanov {BIO 15007228 <GO>}

Thanks for taking the question. You said that China is not the panacea for the ethanol quad, but going back three months ago, pre-COVID there are were expectations that China would resume purchases post the Phase I trade deal. And obviously lots have changed, but is there any hope for China to resume ethanol imports sometime in 2020?

A - Todd Becker {BIO 16250416 <GO>}

Yes, I think, what I was talking about when we just talked about China was corn that -- China corn purchases aren't going to save the U.S. corn market. When you have ethanol, demand for corn down so much. And that was my reference to China. In terms of ethanol, we're still optimistic, obviously some of the things out of the administration would put that maybe at paused. But everything else, we've been hearing is that, they're going to comply with what the trade -- first round trade deal and the rules around that -- around agriculture and we'll see if that really happens, but obviously we're going to watch that closely.

Our view is that, yes, they will still -- they still will take some ethanol. We've seen a little bit of small little parcels go over -- but more for industrial uses in our view, is what we've seen. There hasn't been a lot of -- there is not a lot of fixtures, there is not a lot of stuff on the freight market today. But I think China have to be very careful on agriculture, which is around the virus, and agricultural prices dropping so significantly. Do they want to step in at very low prices? And by U.S. almost look to take it -- almost looking like you're taking advantage of this environment to buy cheap U.S. product. And I think that's probably the one thing that hit putting them on pause a little bit, but that's just a view point. But overall, yeah, we would still expect them to --if they engage, they won't -- we expect they will engage in ethanol as well.

Q - Pavel Molchanov {BIO 15007228 <GO>}

Understood. Let me ask a question about the hand sanitizer, since the treasury loosened the rules for who can sell ethanol into the hand sanitizer market, lots of ethanol producers have tried jumping on the bandwagon. How needle moving and this become in a financial sense beyond just the PR aspect?

A - Todd Becker {BIO 16250416 <GO>}

Yes. So, the FDA, they loosen them -- they tighten them, they lose them and they tighten them, and they are tighter now. It's really going to be -- what we're seeing right now is for the hand sanitizer market in United States, it's USP Grade and FCC Grade. And those are the grades that the customers want, they tried fuel. And in our view, we are replacing a lot of sales out of York to customers that tried to fuel major customers in the United States, that tried fuel and realize that that's not going to -- it's not going to deliver the quality and the -- even the smell that they're looking forward from products. So I think what you're seeing is small participation in some of the fuel aspects, but much bigger participation, and if you can make FCC or USP Grade. And that's really where we're focused on.

We just happen to have a plant in New York that has been making FCC Grade for many, many years. Most of it has gone export, but at this point, most of it's going to stay domestic, although we do still have some export sales on for the remainder of the year. And so in terms of -- we're not giving any guidance in terms of what the future will hold for this product, I mean, I think it's still part of the -- the change in society. And what we're going to do to operate -- open up this country and part of it will be around cleanliness. And I think we're in a good position to take advantage of that. We just happen to have a plant that makes it a really good product and we're starting to see some returns from that.

Q - Pavel Molchanov {BIO 15007228 <GO>}

Thank you.

Operator

Your next question comes from the line of Craig Irwin with Roth Capital.

Q - Craig Irwin {BIO 6209023 <GO>}

Good morning and thanks for taking my questions. So Todd, I wanted to ask about opportunistic capital projects at Fairmont, Fergus Falls and Superior. Did you execute any of these over the last six months quarter, as you were doing all the work for Project 24?

A - Todd Becker {BIO 16250416 <GO>}

All of our projects there have been around Project 24 upgrades. So other than anything we talked about it -- Wood River, Superior and Fergus Falls, they've all been our owned -- around operating those at a much lower cost of production, and we've been very successful at that. It's actually shocking the results as we've talked about, we have Wood River operating at $0.21 a gallon, which was a Delta -- it used to be a Delta-T, 113 million gallon plant and operates at the low end of the spectrum of ICM plants. Now, in fact, ICM would tell you, it operates some respects better than ICM plants today. So we've kind of cracked the code on our platform, where we are going to drive down our operating cost per gallon, which you could really see the benefit in a quarter like this, when you go from Wood River, three years ago, running at $0.35 a gallon through today, running at $0.21 a gallon, same thing with a Superior now running in the mid '30s now to running in the low '20s and that's just when you start adding that over a lot of gallons, it really changes your variable contribution margin calculation. But no, there is -- we haven't done many other things to those plants at this point.

Q - Craig Irwin {BIO 6209023 <GO>}

Great. Thank you for that. So then, York, obviously, it's a great opportunity to provide a product that's in need now for people all over the world. I guess, can you talk about the incremental capacity there? I mean, is there -- was there a historic moderate level of utilization of the plant, have we moved up to 100%? And then, can you maybe give us a little color as far as the offtake there. Would you expect to be predominantly serving FCC Grade ethanol towards sanitizer markets or with the historic markets that York has served, be willing to pay some of these higher prices that scarcity is driving?

A - Todd Becker {BIO 16250416 <GO>}

Yeah, York has always run at full capacity and it continues to run at full capacity. It's approximately a 50 million gallon plant per year. And we're still maintaining our delivery schedules for the export market and starting to see more interest there as those values have started to move as well, especially into South America, Mexico and the Far East. And so we're starting to see those values uptick. And we're not going to abandon our worldwide distribution, because I think that's very important long-term. And then, obviously in the domestic markets, we're very focused on FCC Grade alcohol, which is much higher, much higher in purity, it's not an ethanol plant, we don't sell our alcohol -- if we sell our alcohol for fuel, there we failed what that plant is capable of it was made for. And we don't -- we saw very little of that plant in any of the fuel markets in the last five year -- four or five years since we've owned it. So we've always been making that product. And we just happen to be in the right place at the right time from that standpoint. You just cannot -- while a lot of people have tried, you're not going to take a fuel grade plant and qualify for FCC grade.

And what we saw is the FDA -- it's FDA approved. They extended that through the end of the pandemic is what they basically said. TTB extended it through the end of the year. So we think we're in a good situation this year to take advantage of that, and it certainly will help our quarter or potentially a couple of quarters.

Q - Craig Irwin {BIO 6209023 <GO>}

Do you think there's a longer tailwind, just a couple of quarters? Or we have to see how the pandemic plays out?

A - Todd Becker {BIO 16250416 <GO>}

I think we'll have to see how the pandemic plays out. I mean, I think everybody else can decide how long we're going to be using more cleaning solutions, and hand sanitizers and everything in between. This product isn't just about cleaning -- or hand sanitizer. It's used -- it's a very high-quality, high-purity product that's being used in cleaning solutions as well and in combination with -- where prices of USP what we've heard have gone, I think we're in a pretty good situation, but you're just not going to convert a bunch of US ethanol plants to make a bunch of FCC grade. It's very expensive to do.

And you're not -- and a lot of plants are not in the situation to do that. And so it's -- and it takes a long time to get that done. So I think from our standpoint hopefully, the trend continues, but we're also ready for it if it doesn't.

Q - Craig Irwin {BIO 6209023 <GO>}

Great. Thanks again for taking my questions.

A - Todd Becker {BIO 16250416 <GO>}

Thank you.

Operator

Your next question comes from the line of Laurence Alexander with Jefferies.

Q - Laurence Alexander {BIO 5156271 <GO>}

Good morning. So can you help us think through what the normalized tax rate should be going forward?

A - Patrich Simpkins

Yeah. You first of all have carrybacks. So your normalized tax rate for the company is going to be around 27.5%. But we do, obviously, with respect to CARES Act, have tax carrybacks with respect to NOL. So that affects the tax rate. And obviously, relative to where we end up on PBT, that affects the tax rate. So that the real reported tax rate can be a bit misleading. But generally, when we think about things internally, it's kind of at that 27.5% tax rate. But again, we've got both the CARES Act, which will impact obviously the calculated tax rate based on where we are on PBT. And then we've got obviously other credits that will probably come into play with respect to R&D in future periods.

Q - Laurence Alexander {BIO 5156271 <GO>}

And then can you give some color on how the protein discussions and -- are shaking out? I'm thinking particularly of how should we think about large volume discounts as you scale up? And is there any noticeable pricing differential between what you're getting in the pet food market versus the -- what we should expect in the aquaculture market for the same grades?

A - Todd Becker {BIO 16250416 <GO>}

Well, we were actually thinking about large-scale premiums as we scale up, not discounts. So when we look at what we're able to do is mechanically get as high as 53% protein with the Fluid Quip system, which we thought was going to be around 50% pro and the first biological uplift would be at 53%. We're very pleasantly surprised on what this technology can do. And now that might be somewhat to do with the corn in that location, but we're going to -- we'll figure it out at the next location.

When we look at it, there's a shortage of protein like this in the world today. So as we scale volumes, we will be able to hit bigger markets that want redundancy and actually or won't pay as high for a product today if they don't have redundancies. So as we create redundancy, we actually think that actually brings us into more premium markets that will pay higher values than we're achieving today, especially as we move up the J-curve. Our first step, we're going to move quickly with our biotech partners to move up on nutritional value and protein levels to try and get to 55% to 56%, which is the next step.

This anti-soy movement is really helping us in terms of looking at protein for aquaculture as well. And we have some other characteristics in this product that help water management for aquaculture. So then as we look at it and you look at the price of corn gluten meal pushing into that $600 to $700 a ton, that's kind of our next step, where we believe we can -- someday, we'll move all the way up to the 60% pro market because while we thought that would be a longer-term thing to achieve, and it still will be over a period of time, starting at 53% to move up the curve is much better than starting at 49% and 50% to move up the curve.

So this is already in pet food today. It's already in companion animal markets. It's going to be in certain aspects of the aqua feed market very soon. And as we make more is really what the market gets excited about versus not making enough. So we're very bullish on this project.

Q - Laurence Alexander {BIO 5156271 <GO>}

And then in terms of the project finance, what the payback time frame might be for those?

A - Todd Becker {BIO 16250416 <GO>}

It all depends on the protein, right. So right now, at 50% to 53% pro, we're right around a three-year payback. At 55% pro, you'd cut-off almost a year potentially. And obviously, at 57% pro, you cut-off another half a year. So it can accelerate very quickly, which is why it's so appealing for project finance is that the paybacks are so big on these projects. And again, you have to start in the plants that are low-cost operator, Shenandoah, Wood River. Fairmont will be done. And those plants also have ring dryers, so we're in a very -- what we think is a positive situation because this is a ring dryer product, and we already have ring dryers in place, which reduces our CapEx on our first four or five or six projects more so than what you would have to build at a straight ICM plant that doesn't have ring dryers.

So there's a bunch of different advantages. Obviously, we're going to do project finance. And we are very clear on that. Again, I think last call, there was a bit of confusion on what we're going to do and how we're going to raise it. And hopefully, after one or two or three of these things, they become self-financing. Just think about it like this. If we can get Wood River, let's just say Wood River is one that we've looked at, and Shenandoah running, that's over 200 million gallons of production at $0.20 a gallon, is $40 million to $50 million a year in cash flow coming from the project that cost less than $100 million to build. And in fact, those two plants will probably be in that $80 million to $90 million range to build.

So you're talking about very quick paybacks. And you start to think about every two projects build another one and every three project builds 1.5 and so on. So if we could just get two of these up and running, we can move very quickly with project-level debt and cash flows from these projects to become self-financing.

Q - Laurence Alexander {BIO 5156271 <GO>}

Thank you.

A - Todd Becker {BIO 16250416 <GO>}

Thank you.

Operator

Your next question comes from the line of Ken Zaslow with Bank of Montreal.

Q - Kenneth Bryan Zaslow {BIO 5641218 <GO>}

Hey, good morning, everyone.

A - Todd Becker {BIO 16250416 <GO>}

Good morning, Ken.

Q - Kenneth Bryan Zaslow {BIO 5641218 <GO>}

What percentage of the plants that are closed are going to be furloughed for a longer period of time? You mentioned the idea that there's plants that are hard-stopped versus ones that are I think the light-stopped -- I forgot the terminology you use. But can you distinguish between what you're seeing and what you expect to come online?

A - Todd Becker {BIO 16250416 <GO>}

Yeah. We think -- we don't have the exact numbers. So I'm just going to give you anecdotal. I think 10% to 20% of the plants in the United States that have come down have furloughed employees. I don't know how many of them have gone to a cold shutdown versus a warm shutdown. Warm is basically being ready to -- be up and operating within a week, cold is within six weeks, and to retraining your employees, getting them all hired back and those type of things. And so -- and then there's some that just laid off their employees straight.

Now you have to remember, some plants -- and we were not eligible because for the size of our company, some plants got PPP money and allow them to maintain their workforce. But that money won't last much longer in terms of the burn of running. So just anecdotal, I think 10% to 20% of the plants are in cold shutdown and furloughs. And then after that, it's probably a mix of all the other options that you have. Then as plants restart, how do they restart with getting working capital as well as bank loans? Like how does that work? It doesn't seem like that's -- is it possible that we actually might get a more permanent reworking of the industry? And what would be -- what would lead you to believe that? Or what would lead you not to believe that? Yeah. I'm always a bit skeptical to say that ethanol plants come down because they're not hard to start up if you could raise local capital or some investor group comes in and says, I'm going to run it better than the last guy. So an ethanol plant can always be started up, whether it's an old one or a new one. And so that's the only thing you have to always be cognizant of. But the ones that are owned today, there is definitely going to be some that have limited amount of working capital. So they're not going to start up just to burn cash at negative EBITDA. And so I think we could be in a bit of a lagging start-up versus demand, but this industry has been famous for doing the opposite. So we'll see what happens this time. But I think this time, you're right, there's definitely plants that have not enough working capital, not enough debt left or they have debt that -- and they can't get any more. And I'm sure any ag banks are going to decide who starts up and who doesn't start up. So overall, I think it's going to be a bit of a mix of all of the above. And hopefully, we've maintained the discipline as an industry to not put ourselves in a situation we've been in for the last two years, but I can't predict that at this point.

Q - Kenneth Bryan Zaslow {BIO 5641218 <GO>}

And then on the US-China trade deal, President Trump seems to maybe reversing his role on this or -- I don't know what your thoughts are on that. Can you provide us how you think that's playing out? And do you think there could possibly be a reversal where maybe things don't go out -- go the way it was expected? And in that case, will that lead to more permanent shutdowns? How does that all play out? And do you think the industry is just waiting for China to come in? And I'll leave it there.

A - Todd Becker {BIO 16250416 <GO>}

Yeah. I don't know if the industry is naturally waiting for China. It's going to be very helpful. We do need this overzealous EPA to make some changes for ethanol that are positive, and they're just so focused on the oil industry that it's definitely a challenge. Even though the President supports it, the EPA doesn't. And we even need the US Department of Agriculture to weigh in as well. They're very focused on direct farmer payments and less on industry payments. And so we're kind of in the middle once again as an industry. But I think, overall, the Chinese say they're committed to fulfilling their obligation under the trade deal. Ethanol is part of that. But again, we can't predict what's going to happen there. But if they do engage, we do believe there will be some ethanol sold.

And then, obviously, we want to get more E15 in the market, and we were making good progress when people were driving. So we need to get the economies opened up as well. So I think all of those could be potential tailwinds. But we've been talking about those tailwinds for several years. And I think this industry just needs to stay disciplined and not overrun against demand, which is what we're famous for.

Q - Kenneth Bryan Zaslow {BIO 5641218 <GO>}

Great. I really appreciate it.

A - Todd Becker {BIO 16250416 <GO>}

Thank you.

Operator

(Operator Instructions) Your next question comes from the line of David Driscoll with DD Research.

Q - David Driscoll {BIO 3978440 <GO>}

Great. Thank you. Thanks for taking the question.

A - Todd Becker {BIO 16250416 <GO>}

Thanks, David.

Q - David Driscoll {BIO 3978440 <GO>}

Great. I wanted just to start off with ethanol exports. I apologize if you said it earlier, but do you have any guess as to what you think exports will be in 2020? And then just could you make a comment on how that export market price is? Does it price on energy equivalence or octane substitution?

A - Phil Boggs {BIO 21345325 <GO>}

Yeah. It's hard to predict 2020 at this point. We definitely are seeing customers that are delaying and canceling some shipments. I think past June, there's still a pretty good book on a business. But as we move through the month of May, we'll decide how June will end up as well. So we are starting to see some nearby export demand either get rolled into 2021 or get canceled outright. And June -- anything June, July forward is remaining on the books for now. So I think we could be potentially still in that $1.1 billion to $1.3 billion range, but I would -- that's only -- that's probably on the high end of the range.

RenovaBio in Brazil is kicking in. And so while certainly nearby, they'll probably push off some of that export program. They still need US ethanol down there to help support the RenovaBio program. Ethanol globally gets priced in a couple of different ways. It's against gasoline. It's against octane. It's against clean air standards in different countries. And every country has a little bit different view. But a lot of it's octane blending. And I don't view that as a -- and there are certain parts of the world that just are going to buy ethanol. But overall, we'll definitely struggle through the end of the year on our export program and until the world starts to open up a bit more and drive.

Q - David Driscoll {BIO 3978440 <GO>}

On Green Plains Partners, I think you mentioned that you wanted to be debt-free in 18 months. Can you just describe how you get there at the end of 18 months? How does it actually work? Because I don't think there's enough cash flow in order to get there. So there's some other actions that I think you alluded to.

A - Todd Becker {BIO 16250416 <GO>}

Yeah. We have a plan in terms of monetizing assets continually at Green Plains Inc., which then obviously is a benefit to Green Plains Partners. In addition, obviously, through the normal cash flows, that will help reduce it. And then they have some assets there as well that if we need to monetize, we'll be willing to do that. We want to get this cash flow to be very clean and the stream to be very clean, and we'll do everything we can to get as close as we can. And at the end, if there's a little bit left, that's fine. But our overall goal is to be as close to debt-free as we can after 18 months.

Q - David Driscoll {BIO 3978440 <GO>}

And then just one final one, just a follow-up. So I feel like I'm hearing you say that you're super excited about the high protein, but you delayed -- your CapEx has shrunk-in this year because of the margin environment that's happening right now. Would it be fair to say that if ethanol margins were to get better, if driving demand comes back, would we potentially see you change your mind on CapEx and move forward with the high protein? I'm just trying to understand just how aggressive would you want to be on putting these high-protein technologies in your plants. They sound so margin positive, it's just hard to understand why you wouldn't want to move forward at a faster pace.

A - Todd Becker {BIO 16250416 <GO>}

I want to move forward very fast, which is why we're trying to get project-level financing. But obviously, COVID -- to get the attention for project-level debt today, because of COVID is a bit hard to do. We are on a path to get $75 million to $150 million of project-level financing. That would move very quickly. I think we'll get some of that done still in 2020. We'll move as fast as we can from a capital perspective. As I said, if we can get two of these on, they will start self-financing number three as well as getting project-level financing.

So we want to move as fast as we can, but we also have to be cognizant of the environment that we're in, protect our balance sheet at all cost, protect our liquidity at all cost and to make sure that Green Plains is -- emerges from this very strong in 2021, and that's the way we're setting up the company. So if I can move faster, I would, but I think we also have to be somewhat cognizant of the balance sheet in protecting that.

Q - David Driscoll {BIO 3978440 <GO>}

Very helpful. Thank you.

A - Todd Becker {BIO 16250416 <GO>}

Thank you.

Operator

At this time, there are no further questions.

A - Todd Becker {BIO 16250416 <GO>}

All right, everybody, thanks for coming on the call. Obviously, a challenging environment, but we're doing everything we can to manage the risk of that and put ourselves in a position to come out stronger on the other side of this. We have good strong liquidity. We've got some other things coming in like the tax refund and uplift from other areas around the company. And we think we set ourselves up well to get through the second quarter, and we'll see what the third quarter brings. But overall, thanks for your continued support, and we'll talk to you soon. Thanks.

Operator

Thank you for participating. This concludes today's conference call. You may now disconnect.