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Q2 2020 Earnings Call

Company Participants

- George Simpkins, CFO
- Phil Boggs, Senior VP of IR & Treasurer
- Todd Becker, President, CEO & Director

Other Participants

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

Presentation

Operator

Good morning, and welcome to the Green Plains Inc. and Green Plains Partners second quarter earnings conference Call. (Operator Instructions)

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

Phil Boggs {BIO 21345325 <GO>}

Good morning, and welcome to Green Plains Inc. and Green Plains Partners Second 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

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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 and 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, Bill, and good morning, everyone, and thanks for joining our call today.

For the quarter, we reported a net loss of $8.2 million or $0.24 a diluted share.

While we had a small loss, we were free cash flow positive for the quarter.

We also reported $17.9 million in adjusted EBITDA for the quarter. Before I get more specific on our results, I would like to recognize how proud we are of our employees during the quarter as we continued our high-quality alcohol donation program and partnership with the University of Nebraska-Lincoln as student, staff and professors made hand sanitizers. This product was provided for free to various organizations ranging from daycares to USDA offices to local school districts, which we believe positively impacted Nebraska health and wellness during this pandemic. The market value of this production from hand sanitizer program was significant, and the gratitude from those receiving this was simply something we could not have done without a facility like Green Plains, York, Nebraska.

We never ever said no to an organization in need.

Our positive results were driven by several businesses within our portfolio.

We had another record quarter in our investment in Green Plains Cattle Company, which will allow a dividend to be paid to all the partners.

Our high-quality alcohol sales out of our York, Nebraska facility helped deliver strong results, and we had some beginning contribution from our high-protein sales from Shenandoah, Iowa.

Finally, the completed Project 24 facilities continued to reduce our operating cost per gallon. Without these improvements and initiatives, ethanol margins would have been very negative.

While cattle in the last half of the year will become more normalized, the rest of the initiatives that provided better performance versus the market margins should continue as

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part of our ongoing results.

While certainly, ethanol margins will remain volatile, these initiatives are just the beginning of what is possible as we continue the total transformation of Green Plains over the next several years.

We produced approximately 149.9 million gallons of ethanol, which put us at a 53.5% utilization rate for the quarter.

We exercised our operational discretion to slow or shut down plants as a result of the negative margin environment.

But we did not furlough any employees during these slowdowns.

We will continue to follow the data moving forward.

While we have seen margins improve off their lows in April and the spot market remains slightly positive, margins are very inverted, which is clearly sending a signal to the market.

The weekly EIA data has been negative towards margins as production is now over 950,000 barrels per day, which is too much in our opinion.

While EIA stocks got down to levels we have not seen in many years, they began to rise last week.

Clearly this industry lacks discipline. The consolidated crush margin for the second quarter was $0.09 per gallon, which was strongly influenced to the positive due to high-grade alcohol sales.

Fuel ethanol margins were generally weak during the quarter, but we believe that through a combination of slowdowns and margin management, we achieved better than the daily average market.

We have now completed Project 24 upgrade at our Fairmont plant where we are starting this plant back up and expect to see similar results to what we have realized on our previously reported Wood River facility as well as our Superior and Fergus Falls plants. Up next for Project 24 is our Mount Vernon location, which will be done by the late fourth quarter. Project 24 has been delayed at our Madison facility due to the state of Illinois permitting and also at our York, Nebraska location, as we will not take that plant off-line because of their -- the contribution to the overall financial performance of the company.

But we believe with what we have accomplished so far, we will be at or below $0.24 per gallon by the end of Q4 and expect to complete our Project 24 initiative by Q1 2021, subject to state permitting.

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We are excited to have announced that we have secured credit approval for a $75 million financing to continue funding of our protein initiative. This gives validation to our strategy and allows us to quickly proceed with Wood River as our second protein location as well as to begin engineering a third location as well.

We expect Wood River to come online during the second quarter of 2021.

When completed, we will have over 200 million gallons of capacity capable of generating $0.15 to $0.20 per gallon of incremental margin from this high-value protein feed.

This is incremental margin to what Green Plains historical platform could produce. During the coming months, we'll be working with our strategic partners to increase the value of this product and its nutritional characteristics, allowing us to move further up the margin curve.

We will continue to work on project-level financing for every location in our platform as the product has immediate acceptance as a high-protein replacement ingredient in aquaculture and pet food.

We believe this financing is just the beginning of a rapid deployment across the platform.

Green Plains Partners reported $13.2 million of adjusted EBITDA for the quarter. The coverage ratio was 3.99x for the second quarter and 1.59x for the trailing 12 months as amortization of principal for the new loan didn't begin until July.

Now I'm going to turn the call over to Patrich to review both Green Plains Inc. and Green Plains Partners financial performance. I will then come back on the call to talk more specifically about our York and Wood River USP and FCC alcohol production, protein and aquaculture initiatives and a little more on markets and policy. Patrich?

George Simpkins {BIO 5782110 <GO>}

Thank you, Todd, and good morning, everyone. Green Plains consolidated revenues were $418 million in the second quarter, down $212.6 million or 34% from the second quarter a year ago, driven primarily by lower ethanol production run rates as compared to the second quarter of 2019. During the quarter, we adjusted our run rates down to 53.5% of capacity compared to an 80% run rate for the prior year second quarter in order to maximize our respective operating margins.

Our consolidated net loss for the quarter was $8.2 million, comparing favorably to a net loss of $45.3 million in the second quarter last year. Adjusted EBITDA for the second quarter was a positive $17.9 million, up from an adjusted EBITDA loss of $19.5 million for the same period a year ago.

For the quarter, our SG&A costs for all segments of $19.6 million remained relatively unchanged compared to Q2 of 2019.

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Consolidated interest expense for the company was $9.7 million, which was $1.6 million lower than the $11.2 million in Q2 2019, primarily due to an decrease in overall interest rates.

CapEx for the second quarter was $28.9 million with approximately $4.3 million of maintenance CapEx with the balance of $24.6 million being allocated to growth capital, primarily for Project 24 and our high-protein initiative.

With the continued improvement in our overall liquidity driven mostly by non-biofuels product sales and financing arrangements, we are revising our target CapEx for the balance of the year and expect full year CapEx to be between $100 million to $120 million, in line with our original guidance. This estimate includes $28 million of CapEx spend for our Wood River protein project during 2020.

On Slide 8 of the investor deck, you will see a summary of our balance sheet highlights.

We had $243 million of cash and working capital net of working capital financing at the end of the second quarter compared to $387 million for the prior year quarter. The balances for 2020 exclude our cattle business that was deconsolidated in September of 2019. Adjusting for the deconsolidation of the cattle business, the prior year cash and working capital total would have been $273.1 million, with the difference between Q2 2020 and Q2 2019 being attributable mainly to a change in cash of about $50 million in net working capital financing.

Our liquidity position at the end of the quarter consisted of $183.6 million in cash, cash equivalents and restricted cash with approximately $289 million in availability under our working capital revolvers. This amount does not include amounts that will be available under the recently announced financing facility or the current credit facility of the partnership.

For Green Plains Partners, we have 151.1 million gallons of throughput volume at our ethanol storage assets during the quarter.

Which was down 75 million gallons or 33% from the second quarter of 2019 as a result of lower production rates at Green Plains plants. However, as a result of minimum volume commitment contracts with Green Plains Trade, the partnership billed Trade Group for 235.7 million gallons of throughput. Accordingly, the partnership reported an adjusted EBITDA of $13.2 million for the quarter, down slightly from the $13.9 million reported in the second quarter of 2019 due, in part, to timing of accounting recognition of railcar lease expenses and other items.

For the partnership, distributable cash flow of $11.3 million for the quarter compared to $11.7 million for the same quarter of 2019.

On a last 12-month basis, adjusted EBITDA was $53.1 million, distributable cash flow was $45 million, and declared distributions were $28.2 million, resulting in a 1.59x coverage

ratio. Lastly, as Todd will discuss more in detail a bit later, we successfully refinanced the partnership with our existing lenders in June.

As part of that financing, we will initially amortize $2.5 million of debt per month. However, with the principal payments on our debt not beginning until the third quarter, our coverage ratio was 3.99x the second quarter. Now I'd like to turn the call back over to Todd.

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Todd Becker {BIO 16250416 <GO>}

Thanks, Patrich.

Over the past few months, we have witnessed the industry production drop to levels we have not seen in modern history and come back just as fast as overall industry production dropped to about 50% of overall capacity.

While the industry moved faster than other energy industry production to shut down during the COVID, it came back possibly faster than those same industries.

However for Green Plains, we are in a better place than we would have expected at the start of the pandemic.

What we learned was York, Nebraska produces a great product that was previously exported to industrial markets and now almost fully transitioned to domestic use. The quality of York's product is very unique as it was originally a beverage facility that has a very different profile than FCC and industrial alcohol being produced by others. That is why we chose this plant to immediately upgrade the USP.

We have been able to redeploy some of the equipment we have in inventory from dismantling our Hopewell location, which is adding to the speed of completing this project. There are a lot of fast followers. Just because you have a grade certificate that says you make that specification, doesn't mean it's a good product.

In fact, many of York's early sales were replacing substandard products from other ethanol plants.

We have worked closely with branded consumer product companies to get our product into their cleaning lines. Meeting their strict QA/QC requirements from such companies is something that sets us apart and our continued development of York and Wood River to USP secures our position to be a long-term player in this important segment of the industry. These customers know there are many ranges of quality and know that ours is exceptionally high.

In fact, we believe the U.S. government should crack down on imports of B-grade USP from Brazil, Pakistan and other countries, and these products should not make their way

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into our supply chain, and they should be vigilant on making sure these meet U.S. specifications, which we believe many do not as they are not getting tested adequately.

Our high-grade, high-quality alcohol sales have been strong -- has been a strong contributor to the positive EBITDA achieved in the second quarter, and should continue to help the balance of the year and through 2021.

We now have almost 75 million gallons of capacity, which is important to our customers, we can provide high-purity, high-quality product at scale, unlike many of the one-off projects that have occurred in this industry.

We have already executed contracts with significant customers through the end of 2021, as demonstrated through our very important partnership with Lysol announced this morning. This affirms that we have something unique happening at York.

During the quarter, we were pleased to complete the refinancing of our GPP debt.

We extended it for 18 months and are required to pay a higher principal amortization, but we believe this benefit accrues directly to unitholders, of which we remain almost 50%.

In addition, we are also very excited to be finalizing a $75 million loan facility to support the execution of our protein strategy. This project-level capital is just the next step in our transition to Green Plains 2.0, but it gives further validation of the financeability of these projects and enables us to accelerate our transformation.

Our wholly owned optimal aqua venture is continuing to make progress as well. The high-protein ingredients we are making at Shenandoah are serving as a delivery mechanism, replacing traditional products in aquafeed. Green Plains is now selling various aquafeeds for blue gill, tilapia, trout and other species.

We always believe that this would occur, and this is only the beginning. Let me explain a little bit about our Optimal Aqua company and how it fits into the overall strategy.

We long said that the world protein market is growing by 10 million to 12 million tons per year, and one of the drivers is the need to provide feed, resulting in clean, healthy fish protein for human consumption and is very efficient as it is a very efficient converter of feeds to edible proteins. Utilizing our high-protein ingredients in aquafeed produces a better overall feed product with improved nutrition and digestibility profiles as it includes both the corn protein and the yeast from the process, so it has an all veg and positive fungal components. It possesses other positive qualities our aquaculture customers have discovered and replaces the negative dietary effects of soy along with the negative environmental connotations of soy, especially from Brazil as well.

We have introduced real-world commercial feeds as well as continuing with additional feeding trials of novel ingredients at our world-class aqua lab in Shenandoah.

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We are just scratching the surface on what this could become, and we'll have more announcements on the strategy forthcoming.

So to sum it all up, we continue to put strategic partnerships together with world-class companies along our total supply chain.

On the front end with our 10,000 farmer-customers, where we are rolling out our customer-facing mobile apps this month for a more interactive relationship with them.

We are using and developing our AI or artificial intelligence to make our interaction more efficient and predictable, and we are seeing very good early results.

We believe this will not only take our ability to buy it better, but we'll also be able to offer solutions to the U.S. farmer base that we have to be able to sell it better.

More to come on that initiative: to our high-quality alcohol business where we are tailoring very specific qualities and logistics to our customers' needs and in return developing long-term sticky partnerships; to our innovation platform with companies like Novozymes where we are tailoring nutritional solutions for our aquaculture customers and pet food customers, and this is just getting started, which will increase the value of our high-protein products; to our technology partners like Fluid Quip, where we are rolling out a high-protein, high-quality production platform of new products that our industry never had before; to our Optimal Aqua business venture where we are tailoring custom solutions to help bring more and more aquaculture production onshore.

As I said, we already have game-changing solutions under development and some are already in full-scale commercial trials with more starting soon and results forthcoming, but so far, the outcomes are positive; to our world-class aquaculture laboratory, where we are using our new high-protein feeds, as a delivery mechanism for new and innovative products, all of which is located on our biorefinery site in Shenandoah, Iowa.

All of these initiatives and many more are important as you make your decision, whether to stay the course with Green Plains.

But know this, our goal is within a few years to totally transform our platform, where we intend to never be prisoner to government policy again and minimize the impact of an undisciplined industry on our shareholders and stakeholders.

I'm proud of the Green Plains team for executing during the quarter, resulting in positive EBITDA.

We have been focused on maintaining liquidity and a strong balance sheet and rapidly executing at every turn. Lastly, I want to thank our employees, many of whom are listening in right now as it's with your dedication to safety and quality every single day that makes everything else possible. Thanks for everybody joining the call today, and now I'll ask for the Q&A session to start.

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Questions And Answers

Operator

(Operator Instructions)

Our first question comes from the line of Adam Samuelson with Goldman Sachs.

Q - Adam Samuelson {BIO 17060388 <GO>}

So I guess, first, Todd, I mean a tremendous amount of moving pieces between, kind of, market volatility and the internal initiatives you've had underway in the quarter.

I guess I'm trying to parse through the ethanol crush margin that you achieved, and we talked about $0.18 a gallon year-on-year. Is there any way we can kind of dissect kind of the drivers of that between the industrial hand sanitizer sales, Shenandoah ramping from the high-pro, Project 24, changes in kind of market kind of crush margins and your internal kind of hedging activities that seem to have been beneficial?

I'm just trying to get my head around how to triangulate the performance between some of those different factors?

A - Todd Becker {BIO 16250416 <GO>}

We're not going to break out all of that because of competition reasons. I would tell you that if we had none of that, we would have been negative double-digit EBITDA crush margins.

Then from there, you can see that we achieved a positive $0.09 a gallon, plus the uplift from cattle.

So you can assume that much of that came from all the initiatives that you talked about.

But we really don't want to break out the uplift from some of those initiatives individually at this point because the industry, I think, at this point, is watching closely, and we don't want to give them a road map to success.

Q - Adam Samuelson {BIO 17060388 <GO>}

No. That's fair.

Then as we think about kind of the balance of the year, and we think about Shenandoah continuing to -- now at full rate and Wood River launching mid next year, help us think about kind of the premiums that you're starting to -- just to realize on the high pro that you're producing?

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And kind of what's the road map to getting that hired from both a protein kind of content perspective, which obviously adds value, but also the different addressable markets as you start getting those redundancies in place from a quality control and supply chain resiliency?

A - Todd Becker {BIO 16250416 <GO>}

Yes. That's a good question. Thank you.

So if you think about the baseline distillers grains that we produce, which are worth somewhere in the $100, maybe $120 range. And every $100 you achieve as a premium over that for this product that we're producing adds about $0.06 a gallon of margin to our production platform.

So as we indicated, we believe baseline, this margin before other improvements trades at a premium to high-protein soybean meal because right off the production line first week that we are producing product, we are producing protein in the 51%, 52% range, as high as 53% mechanically with no other technology added on top of that, which was really beyond our expectations. The overall business thesis was made as a baseline high-protein soybean meal replacement, and that added about $0.12 a gallon or a couple of hundred, $200 a ton premium to distillers grains.

But because of the protein level, and we have -- as we've talked about, the J-curve, which as the protein level increases, the margin increases faster, the margin improvement increases faster.

So as high-protein -- soybean meal is about 47% pro, and we're putting 51% pro out right away as high as 53%, we're getting premiums above high-protein soybean meal as well.

So our first initial sales we had in place gave us somewhere between a $0.14 to $0.17 a gallon uplift depending on the customer, which basically was a $200 to $300 premium over distillers grains or up to $100 premium over high-protein soybean meal, and we believe it'll just go up from there. The addressable markets, and I will tell you that the value of the product doesn't -- in our view, and this is a strange way to think about it, but the value of this product doesn't go down with more quantity, it actually goes up with more quantity because now you can provide a consistent supply chain with redundancies to a bigger and larger addressable market. If you just go to some of the largest buyers of feed in the world, they won't even look at you until an industry can make 1,000 tons a day. That's 365,000 tons a year.

If you think about today, there's four -- three or four of these plants running.

Once Wood River comes online and others that have bought this technology come online, we might start to be able to reach that to get to even bigger addressable markets.

But right now, where we're focused on is addressing the needs in pet food and aquaculture.

I think we'll -- it'll take us half of our platform before we even start to move into other markets, other than maybe all veg, specialty diets and poultry, which I think will pay a premium as well.

So again, it's really just a matter of every $100, it's worth about $0.06 a gallon. If you take distillers grains as your baseline. And you decide what you want, what's this product worth as a replacement protein up that J-curve that I talked about, it's very easy to see the ability to add margin.

And then lastly, when we have Wood River and Shenandoah running, that's about 200 million gallons. At a baseline, we think, $0.15 to $0.20 a gallon, which is $30 million to $40 million of additional EBITDA over our whole platform just on those two plants on an investment between those two plants of under 100 -- should be under $100 million in both of those plants.

So you could see it's less than a three-year payback.

Operator

And our next question comes from the line of Ben Bienvenu with Stephens Inc.

Q - Benjamin Bienvenu

Really -- to Adam's point, really solid consolidated crush margins.

Congrats on that. It sounds like it's largely internally driven. I wanted to focus in on the hand sanitizer business and less so in the quarter in and of itself, but in terms of how you are arranging your assets, to be a more substantial player in this market going forward.

I'm curious, when you think about making those commitments and converting some of your capacity to produce that product, how do you think about the demand for the product relative to what you supply in a world beyond COVID, where we've seen elevated demand?

And then how variable is the revenue per gallon for this product that you sell?

A - Todd Becker {BIO 16250416 <GO>}

Okay.

So first of all, we are not just selling our alcohol for hand sanitizer. I think that's really important -- a really important point. It's going into many things from cleaners, disinfectants as well as hand sanitizers. The hand sanitizer revolution that we saw early was the initial driver of the euphoria around high-quality alcohols.

What happened was the market got very confused.

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As you see the FDA recalling and just putting out warnings.

Other companies thinking they make the grade, selling it, and then the quality and the smell and the odor was off the charts negative and then they found their way back to York, Nebraska.

So the early euphoria, I would say, was mostly around sanitizers like that.

We've made our way into that and the reputation of York was it was a replacement for bad-odor, bad-quality products that they came and got a higher-quality product from our company, which led us then into moving away from Ted and John hand sanitizer company into more of the branded products companies where they were needing long-term supply as their demand as the move to quality took place on these products and less about euphoria, more about quality, which is what we announced earlier in our partnerships with GE Current, our partnership with Xerox, and our most recent announcement with our partnership with Lysol, that was a flight to quality.

And I think that's lost on many who think they're just going to start up and access the market and get themselves injected into the supply chain because there are many, many plants that started up with a USP or an FCC grade that will never get -- never make it through QA/QC of these organizations.

That's the one thing that I think makes Green Plains very special and unique and differentiates us is our ability to get through global quality control and quality assurance processes with these companies. The demand, I think, is still variable, although we have seen a pickup more on the larger global companies and a slowdown on some of the start-ups, but that demand is outweighing the slowdown that we have seen.

But again, at this point, it's the professionals that start to get involved, and they are coming to Green Plains, as you can see by our announcement this morning, because of our ability to manage quality, logistics, ongoing ability to help with providing a product that is what it says and does what it says. And again, we can deliver on a timely basis and have the ability to supply large quantities.

Now I would say, our view is that and the view of our customers is that this is not going away anytime soon, as evidenced by wanting to put together longer-term offtakes and contracts with our company because of the security of supply but also the quality of the product. And our view is this is easily through 2021, if not a 2022 and any increase in COVID and/or other viruses that come will just make this a and ongoing business.

But again, you see a lot of announcements of fast followers, and I don't really fully believe some of them know what they're getting themselves into and will have a customer to sell to. Because it's becoming very professionalized very quickly with high quality control.

But with that said, it's also becoming global in our view.

We're starting to see global growth as well.

Those markets coming up. Typically, we would have sold the export market at a much lower price than the domestic market historically.

But that export market is starting to have to pay up, and we're finally starting to see movements in Asia, the EU and a little bit in South America of those prices starting to reach as high as domestic prices.

But when this all started, obviously it was like the Wild West, and I would say it's starting to mature very quickly.

So our view is that the demand is elevated today, but it's going to remain elevated for at least 18 months, if not, a year after that.

Q - Benjamin Bienvenu

Very helpful. And Todd, is the revenue per gallon is it variable or fixed in the contracts that you supply?

Or give us a sense of what's embedded and what's its volatility or line of sight to pricing?

A - Todd Becker {BIO 16250416 <GO>}

Yes.

For us, what's more important is line of sight and putting together partnerships that work for both ourselves and our customers.

I'd say we have taken business away from others because of our ability to commit to volumes and be fair with our customers and our -- and the people that we supply our product to and our partners as they will extend contracts further out. More importantly to us than getting an elevated price in the spot market is actually locking in a margin for a longer period of time with a partner and helping them make sure they can lock in their needs at what, I would say, is reasonable terms, and we can lock in our margins at reasonable terms, and we work together on that instead of just trying to get the best price as you can in the spot market.

So we've always taken a view as a company that if we can lock in and become more predictable and know where 75 million gallons of a very high-quality alcohol will have a home, we'd much rather have that than playing around and messing around in some of these spot, high-priced markets, although we still have product for that as well, and we still are selling some of that, but the long-term offtakes are much more important to us.

But no -- but they're definitely not at the same level as the nearby prices, but they are at levels that give our shareholders a very good baseline earnings, at least or baseline EBITDA before everything else starts.

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Q - Benjamin Bienvenu

Okay. Very helpful. My second question is around Project 24, and you guys have made really solid progress there to the point where it seems like you might need to start to rename the project to, I don't know, Project 22 or 20, but can you help us think about what the barriers or governors might be on getting your network below that $0.24 level from a cost perspective and just kind of quantifying or putting parameters around what we should be considering with respect to what that ultimate opportunity looks like.

A - Todd Becker {BIO 16250416 <GO>}

Yes. I think you're on the right track when you think about where we're going to end up because of the results that we've seen with our partnership with ICM as well, who I'd be remiss not to mention in our other partnership discussion, who has really worked closely with us on driving the cost of our operations down. The results we saw in Wood River put Wood River into the world-class facility and OpEx mode much similar to modern and best-in-class ICM plants.

In fact, as we said, we're basically converting the biggest part of the plant to an ICM facility, and it's operating consistently like that.

The Fairmont facility is starting up right now, we had a bit of a COVID outbreak there, but now that's under control, so we're back in start-up mode, should have that running sometime next week. That's our second big Delta-T after we did two also smaller Delta-Ts. The big driver will be our eastern plants of Mount Vernon and Madison. Those are the Vogelbusch plants, and we're going to do the same thing there.

We have started to convert Mount Vernon as we speak.

We should probably take that plant down in a couple of months for conversion.

That will be really the telltale sign of where we end up at the end of this program, but I would agree with you, it will not be Project 24. It will be probably closer to Project 23 or Project 22.

Then from there, I actually think there's next steps that we'll be able to take once we're at those levels to drive our cost structure down further, where we can get our whole platform down into that -- probably that 22-ish type -- 22-type range.

But I think what's really dramatic is what we've done, not at our large plants, which we saw the path was there is a plant like Superior Iowa or a plant like Fergus Falls, Minnesota, which traditionally was a high-cost small Delta-T plant running in an OpEx after the four basic commodities, and we've outlined that in the past, how that works.

So we can do like-for-like comparisons because some have been skeptical of what OpEx is or said theirs is better, which we would disagree.

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But with that said, we've taken two small Delta-Ts high-cost production facilities.

They have run as low as $0.22 and $0.23 a gallon OpEx comparing I think better than many large ICM facilities because of what we were able to do with our technology upgrade.

That just is game-changing to a platform like us when we will have a various amounts of technology with many -- which many said can never be reduced to a level that is average best in the industry for a portfolio, which we believe.

Lastly, in comparison, just one comparison point for you, a Delta-T 50 million gallon plant traditionally ran at $0.32 to $0.35 a gallon operating costs and right now, our plants are below $0.24 a gallon or right at $0.24 a gallon on the small plants operating cost. It's just a dramatic change in our ability to withstand margin volatility.

Operator

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

Q - Eric Stine {BIO 15861874 <GO>}

I just want to get back to the FCC and the USP alcohol. Just curious, obviously much more -- as you said after the early days, much more of an emphasis put on a higher quality or meeting certain specifications of some of your partners. With that in mind, I mean what are your thoughts about what your ultimate volume levels could be?

And we know 75 million gallons at York. I'm not sure if you've ever disclosed what your production level is at Wood River, but would love to know kind of what you think this can be going forward for the overall platform?

A - Todd Becker {BIO 16250416 <GO>}

York is about 50 million gallons. Wood river is 25.

So that's the two plants combined. Both are being -- both will be upgraded to USP, and we are actually now engineering or now are starting to design and think about going to VHQ, which is very high quality, just continue to go.

We don't want to stop. I think from our standpoint, we have to continue to differentiate ourselves. And because we have such a big starting advantage because York was already a beverage-grade facility. And Wood River is getting massive columns distillation columns from our Hopewell facility that we have in stock today that can transform that B grade column that I'm sorry, York is getting the massive distillation columns.

But Wood River now being a B-grade facility is going to get the same treatment as well.

We could move so much faster, but we're not going to -- as I said, we're not going to stop.

FINAL

I mean we probably won't become a beverage grade seller of alcohol, but we want to get to the VHQ-type specs, the very high-quality pharmacy grade.

We want to continue to move because the USP moniker is not really the same with every single plant.

We would warn and tell customers out there that buy product from this industry to make sure you know what you're buying. Because USP is not USP at every facility, make sure the odor meets the standard and make sure the quality meets the standard.

And while you might get the moniker, it might not give you what you're looking for, so make sure you're very, very careful on that.

So I think we're going to probably stay around 75 million gallons. There's enough projects announced. Let's see if there's any growth in the business as we move into specialty alcohols and VHQ-type alcohol and have it -- and we do have a strategy around that.

We'll wait and see if we transform anything else.

But right now, I think we're very good at the volumes that we're selling today. The market -- there are -- the market is active, but I wouldn't say it's deep without a lot of work.

Q - Eric Stine {BIO 15861874 <GO>}

Got it. And maybe just follow-up on that.

I mean you just, in response to a previous question, talked about your preference to be under long-term contracts. Just wondering, are you able to or willing to disclose the contracts that -- like the one this morning you've got through the end of '21 versus ones that are -- have yet to come up for renewal?

Just trying to get a sense of what -- the contracts that reflect today's environment and going forward rather than ones that maybe were signed in 2019?

A - Todd Becker {BIO 16250416 <GO>}

I can only comment that in the beginning of the COVID crisis, the market was in that $5 to $10 a gallon range for some volumes because of the shortness of supply.

Then it's come down from there. It's definitely a premium to fuel grade because it costs more to make. It's a much different supply chain, much different logistics, much different cost structure, but it's definitely not in that initial euphoric price range.

But either way, when you take 75 million gallons, and you multiply it by something better than fuel grade. And as I said, probably not over that low end of that euphoric range, it's still meaningful.

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But it's just different customers will pay different for different needs, whether it's a long-term, short-term totes versus rail, trucks versus gallons.

I mean you can go on and on and on.

In fact, we are starting up two packet lines at the end of the month that Green Plains owns where the partnership with a pharma-grade company, a pharma company and a clean room facility, we're starting up two packet lines to give one milliliter single serving delivery mechanism for the market, and we've already -- we're going to make -- we're going to make packets, not just for our own distribution, but also for customers that will buy the one milliliter, 1.5 milliliter packet lines that we ordered those from European manufacturers right at the beginning of this as we saw the vision for -- the need for different delivery mechanisms.

We partnered with others that make one-gallon jugs that trade a lot higher because of the cost of production.

So it's really all over the place, but we're involved in all the different sizes and all the different delivery mechanisms.

If somebody needs to move from totes to rail and rail to truck and truck to gallons, we can deliver all of that.

That's what I think makes us very unique in our ability to service very high-end, high-quality customers better than anybody else today.

Operator

(Operator Instructions)

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

Q - Pavel Molchanov {BIO 15007228 <GO>}

Kind of a high level policy dynamic.

We're obviously watching the stimulus conversation and Congress wrapping up here, presumably.

What do you think the ethanol industry can realistically get from the next stimulus package in your mind?

A - Todd Becker {BIO 16250416 <GO>}

Well the difference between reality and hope is wide, right?

FINAL

Hope is now the strategy sometimes all this industry has.

But the reality of it is, we're probably not going to get very much. And any -- and everything else is wishful thinking.

I think that if we get something, we'll obviously not going to say no. But I think it's a very hard ask, and it continues to try to get pushed out of the legislation, and our champions continue to try to keep it in that believe this industry was damaged from many different policies that -- and many different issues that took place this EPA damage this industry beyond reproach. They -- the China trade war was damaging to us.

I think that we need -- a little payback wouldn't be so bad, but I'm not sure that, that's going to happen.

So I'd say that the chance is low that we'd probably see very much.

But relative to what we've endured, more probably than any other industry impacted by China trade, EPA and other policies, we're probably the biggest impacted -- the industry that was -- had the most impact negatively as the ethanol industry.

I think that, that needs to be taken into consideration.

Q - Pavel Molchanov {BIO 15007228 <GO>}

Okay.

One other kind of policy dynamic, this one from the other side of the Atlantic.

When we talk about exports, it's usually Western Hemisphere and China in the conversation.

But we're seeing more and more headlines from Europe about the European Green deal, the climate law, et cetera.

Why is the U.S. industry not exporting billions of gallons to the world's largest fuel market.

A - Todd Becker {BIO 16250416 <GO>}

Because exactly what the administration is fighting, which is breaking down tariffs, is exactly what has to happen.

It's a very unfair system where we'll bring in Brazilian ethanol without a tariff, but they tariff us to go into Brazil.

We'll bring in Chinese products without a tariff, but we pay a tariff to go into China.

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We'll bring in EU products without a tariff, but we pay a tariff to go into the EU.

We continue to have unfair trade policy around ethanol everywhere in the world, that we have to compete, not only be cheaper, but also have to be cheaper when you take into consideration a tariff, while our boats pass in the night, as our policy is flawed on many different fronts.

We've done a good job building up our exports of ethanol around the world to what was pushing -- what was going to push probably two billion gallons.

I would say because of COVID and because of the lack of movement, we are significantly -- we're going to be significantly hampered, at least over the short-term to get ethanol out of this country, and it's going to be driven both by not just COVID.

But also trade policies and tariffs.

That's what I think where we support this administration is in the fact that they are trying to break down these tariffs.

What's crazy is that while we can't get our ethanol into China, they're stealing our corn at the lowest farm prices that we've seen in how many years.

I mean this is a unbelievable grain robbery from China, stealing the corn out of the United States, stealing farm products from the U.S. farmer when not having to buy U.S. ethanol and putting a tariff on that while they come into our country, and let COVID and this trade policy drive U.S. corn prices lower. And now they step in, and now they're going to buy. That to me is a gross -- that is a complete, what I would say, mistake of our agricultural policy to let that happen.

I think we need to stop it.

Operator

Our next question comes from the line of Craig Irwin with ROTH Capital Partners.

Q - Craig Irwin {BIO 6209023 <GO>}

Todd, I would agree with you, blatant inaptitude at the Head of the EPA. My question is about high pro.

So can you please update us on the collaboration with Novozymes?

What you're working on and what you expect within the next two quarters, incremental production available out of the yeast strains that you're using and other potential enhancements to products.

Then the Norwegians obviously want soy out of salmon. They've taken some specific actions there already.

Can you quantify for us with the size of the Norwegian aquaculture market is?

And is it going to take many, many high-pro plants beyond what Green Plains can do to satisfy their demand?

FINAL

A - Todd Becker {BIO 16250416 <GO>}

Yes.

So with regard to what we're doing on moving up the price curve, it's not just a combination of just the level of protein, which has been done for -- Fluid Quip was doing that long before and collaborating to move up the protein J-curve long before anybody else even thought about it.

So we believe that won't be the biggest issue to do that.

In fact, it's a combination not just of protein, but as you said, yeasts and other things that we're working on to really create a product. If you think about the J-curve that we've talked about, which is the higher the protein, it's not a linear price move on value. It's a J price move, which is the higher the protein you, get actually multiples higher on price.

When you think about that, if you flatten out that surface all around the J-curve, that's where we're going to operate because it's not just about a higher protein, it's about nutritional solutions, and that's where we believe the partnership with Novozymes is really what that takes us to. It's going into their libraries of other things that they do other than just moving protein higher and partnering with them to provide solutions to our customers that are much more valuable than just the level of protein.

And so we're making -- what we wanted to do is get to a steady state in Shenandoah and run that way for a while before we start to bring these other nutritional solutions into the product quality.

That's going to probably start to begin shortly. They are -- our partner is chomping at the bit and ready to go.

We believe that we have lots and lots of innovation to add in.

We're literally on the cusp of beginning these processes today.

But again, it's not just about raising level of protein, which Fluid Quip has been doing for many, many years through different technologies, both biological and mechanical.

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Then we'll just tap into that expertise on top of what the library of solutions that -- our great partner of Novozymes.

But this partnership at Novozymes, a lot of things that we have seen around just our -- just some of our customer development and other areas is because of our partnerships that we're putting in place.

So they're definitely achieving other things other than just the product development.

So we're excited about that.

We're just kicking this off.

What that will allow us to do is once we start Wood River facility number two, we will already know what we can immediately add to increase the value of this product.

When we look at the world thinking about corn as the corn protein meal, high-protein corn mean as a delivery mechanism for aquaculture, right now, obviously you see the fallout of soy is just beginning in the -- not just negative nutritional characteristics, but negative connotation around the land use and other things that, obviously we've dealt with a lot in ethanol, which we've proven to be incorrect.

But today, we're still working on trying to figure out how to give Norway and other markets like that a non-GMO solution.

We are considering taking one of our -- one of our refineries to a non-GMO corn supply where we can make a non-GMO, high-protein corn meal right out of the bat, and we think that we can do that over -- as the next one, possibly we have chosen number three or number four would probably be a non-GMO solution and work with farmers to grow non-GMO corn, and we have time to do that.

But today, we think in the Norwegian salmon market, if you just look at that in a vacuum, what the opportunity is, we think there's about two million tons of demand for feed there. 20% inclusion rate would come from corn, high-protein corn meal that we produce with the high-protein corn fermentation that products that we produce.

So just that market alone, just that market alone is 400,000 to 500,000 ton opportunity, and that's just 1 single country.

That's just to include this as a delivery mechanism of high protein, but that's doesn't include the nutritional characteristic that we can add on top of that.

That's just the salmon market. That's not inclusive of all the other aqua markets there is as well.

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But I think we're working with customers around the world, partners around the world. More to come on that and then more relationships that we're putting in place that I think will be very exciting for our shareholders.

Q - Craig Irwin {BIO 6209023 <GO>}

And my second question, I guess I should start by saying congratulations on the $75 million debt financing. It really does give you a cleaner runway.

Many of us thought you would probably monetize your cattle assets, sort of back-of-the-envelope math is, you would get something similar to what you got for the other half, $75 million?

Is there maybe an opportunity to do high pro faster on monetizing cattle or maybe a plant sale that's still available to you?

What would it take to do high pro faster?

And is that potentially under consideration for the next couple of quarters?

A - Todd Becker {BIO 16250416 <GO>}

Yes. We're looking at accelerating and moving at warp speed, if we can on high pro.

We want to get it rolled out across all of our production facilities that we have.

We're working on a strategy to do that financial strategy to do that, inclusive of many of the things that we've mentioned in the past, some that you've mentioned on this call.

But the great thing about this announcement and the approval that we got and trying -- and getting -- now getting to a close, hopefully, mid-August, mid- to late August with the lender who we will announce at that time is that it validates that this is a financeable asset. Now remember, what's interesting is this is not just bolting on a few pieces of equipment. It's a stand-alone, high-protein production facility that gets fed a stream from the ethanol plant, but that's it. At that point, it's on its own. It has its own dryers, its own production facility, its own loadout, its own quality control. It's much higher in standard to as we service pet and aqua markets.

So it's -- as you've seen, actually, you have seen it. It's its own stand-alone facility.

And now as the lenders and as financing understands that, that, we believe, will kick off other project-level financing in different forms.

Obviously we have to wait and see what those are.

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But as this was so important to get that first one, that first announcement out to get the first $75 million.

What I would say is very good terms for this type of investment, which is even another validating point and how much our partner believes that this investment is financeable when you -- when we look at the terms that we announced, so we think this will lead to many other announcements, whether it's going to be through monetization of assets, whether it's going to be through partnerships or whether it's going to be through project-level financings, I think you'll see more to come on that, but we want to move at warp speed.

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Q - Craig Irwin {BIO 6209023 <GO>}

Great.

Congratulations, again, on surprisingly strong execution.

A - Todd Becker {BIO 16250416 <GO>}

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Thank you.

Operator

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

Q - Laurence Alexander {BIO 21637617 <GO>}

I guess, two things.

First, on the very near term, can you just confirm that the high-protein will be accretive in Q3?

Or is there any offset or ramp time or lag in running it through the P&L?

A - Todd Becker {BIO 16250416 <GO>}

So if you think about Shenandoah, I mean it's obviously going to be a contributor as you run.

We said Shenandoah has a capability running about 40,000 tons a year, 40,000 to 45,000 tons a year. If you just take a $0.15 a gallon uplift on those 45,000 tons at an 80 million gallon plant, it will start to have a run rate of about $12 million of EBITDA a year, $10 million to $12 million of EBITDA a year.

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We'll start to see that contribution start to come in, in Q3 as we start -- as we've ramped up now to 100% without -- we do have some downtime just to upgrade some systems in this quarter as we learn some new things, and we want to add new things to it.

But in general, you should start to see post some downtime this quarter, starting in Q4, you'll start to see that run rate of $0.15 to $0.20 a gallon at 80 million gallons for 40,000 tons of production.

FINAL

Q - Laurence Alexander {BIO 21637617 <GO>}

Great. And how close are these units to the kind of theoretical yields?

Or should we expect a sort of multiyear optimization cycle once you're done installing the units.

A - Todd Becker {BIO 16250416 <GO>}

So our models were all built on a little over three pounds per bushel of yield.

So that's going to be three pounds of protein for every bushel of corn. A bushel weighs about 56 pounds.

So you could see how much of the corn kernel was going to go into this protein.

We believe short term, we're going right -- we'll be at 3.5 pounds at most sites. It also depends on, obviously location, protein, test weight, all the other types of things.

We're moving quickly, and we will move quickly to that 3.5 pounds.

Then at that point, it will also come down to the post-MSC distillers grain, the post-production distillers grains.

What we're seeing is the increase in quality of also the traditional distiller grains that we produced because it's a much cleaner product because we are now dividing out corn oil, we're dividing out some high protein.

What we're leaving, though, is also a very clean post-production distillers grains product as well.

But in general, our view is it's a 3.5 pound per bushel yield.

It can go up from there.

But at that point, you've got to make sure it's locational -- it's a locational perspective. Some locations don't mind the lower protein remaining distillers grains because it's a

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cleaner and better product. Some locations want to is still maintain a minimum level of protein on the remaining distillers grains, which will prevent you from maximizing yield, but we believe the effective yield of the Fluid Quip system that we're putting in can go as high as five pounds per bushel, which you can understand, that would be a much bigger uplift to the margin structure, but you just have to make sure that the remaining post-production traditional distillers grains still maintain their value.

But our goal is to continue to push yield with Fluid Quip.

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Q - Laurence Alexander {BIO 21637617 <GO>}

And there's been some discussion in the soy industry about using gene editing rather than GMO to upgrade the protein contents in the soy. Are you seeing the same discussions in corn?

So you could have a non-GMO, high-protein product that would be easier for you to convert?

A - Todd Becker {BIO 16250416 <GO>}

Yes.

So as you know, we have a strong commercial partnership with Syngenta on Enogen corn.

In fact, we're one of the largest commercial partners they have on these type of products.

So that's why what was so important, as I announced, is we have 10,000 farmers that are coming on to our platform, and many of those farmers are in our Enogen program today.

We've discussed with our partner what we're doing with the thought process around the corn kernel.

What's important for them to think about as they come out with new genetics.

And interestingly enough, they're very excited as well and they can probably help, and they believe they can help us in the future on working with us on our needs to what needs to get edited into the corn kernel for a, obviously it'd be a GMO product, but it can move under CRISPR and the things that they have, they can move so fast to turn out a new product.

Obviously it still takes a couple of years to scale up seed.

But the ability to edit into a corn kernel actually is easier in -- if I recall, than the ability to edit into a soybean today.

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And so what's great about our partnerships with the seed company is that because of what we're doing in our platforms, and they have an amazing farmer platform as well, producer platform.

When we put those together, the knowledge base that we have, we believe, will be second to none as we innovate around changing characteristics in the corn kernel that match what we need to do in, say, our Fluid Quip process.

But lastly, I think what we also have talked to them about is a non-GMO kernel that we can use to help provide solutions for our non-GMO feed customers around the world.

We believe and what we've seen so far is they're making advancements on that as well.

But we're obviously waiting to hear more about that.

But they know that those are things that are important to us as with being a very large commercial customer of theirs and a partner.

We've been with them for many years.

We use Enogen corn across our platform, which has given us an uplift in yield and better viscosity through our plants and they run better on this product. That's very -- but the best part of it is that when the farmer customer that uses and grows Enogen he has a Enogen field, and he has a yellow corn field.

We have them all on our platform.

We're getting access to all of their product.

Then obviously it's a two-way street, going back and forth, which we think is the value of coming to an outward-facing app for Green Plains, giving them more solutions, much like you've seen in other farmer entities that are being formed, when we could put 10,000 customers right on to our platform, it has a lot of value to many companies, whether it's a seed company, whether it's a chemical company, whether it's a fertilizer company, and those partnerships that we think will be very valuable in the future.

Q - Laurence Alexander {BIO 21637617 <GO>}

And then I guess the other question is when you look at the kind of the bundled nutrient profile for the, say, the aquaculture application, is getting the corn -- are there ways to modify the corn protein to improve the miscibility of other nutrients or micronutrients, sort of the processing stability of the final compound.

So is there a layer of differentiation that you can do on the downstream treatment stat?

Or is that something that is more sort of two, three steps down the value chain from you?

A - Todd Becker {BIO 16250416 <GO>}

I think that's a step following exhausting our technology partnerships to increase nutritional value and profile in our feeds, both for aqua pet and other animals.

I think that's really the importance, as I said, of the Novozymes relationship is that's what we're working on is using all of their libraries and technologies, it's not just about protein, it's all about the characteristics of what's in our feed.

That's, I think, what makes our situation unique between kind of what we call as the hardware and the software. The hardware is the Fluid Quip system, and the software is all the other partnerships we're putting in place that we can deliver.

I think the corn kernel will be part of that at some point.

But in terms of nutritional characteristics, I think we're really focused on the – quote -- software relationships we have today and the software relationships we're developing today.

So we haven't even scratched the surface on those before we even get back into -- breeding them back into the corn kernel.

Operator

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

Q - Kenneth Zaslow {BIO 5641218 <GO>}

I'll actually just limit it to one question. If I were to assume your margins were breakeven two years ago, then I would assume they're breakeven today, and I assume they're breakeven in two years.

What do you think the difference of your profitability would be on those four -- on those three different levels of metrics?

A - Todd Becker {BIO 16250416 <GO>}

Well breakeven two years ago was at a $0.32 a gallon OpEx.

So a breakeven today is approaching a $0.24 a gallon OpEx.

So you would say that's a $0.10 to $0.12 uplift. And a breakeven two years from now, and this is just OpEx alone, would be, probably, let's shoot for $0.22.

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So you're a $0.12 to $0.14 a gallon uplift two years from now better than four years -- two years from now, better than two years ago. Now two years from now, let's say, we have four to 5, let's say, 400 million gallons to 500 million gallons of high pro running at let's use $0.20 a gallon two years from now, that's going to add 100 million gallons -- $100 million because I'm using round numbers to make it faster for you, $100 million over 1.1 billion gallons.

So now you're two years from now.

From OpEx, you're going to get $0.12 to $0.14 uplift, plus you're going to get another $0.11 a gallon uplift from just half the platform converted to high pro, not inclusive of nutritional uplifts and other things that we're working on. If you fast forward two years from there, you're going to be $0.12 to $0.14 a gallon on OpEx, and you're going to be a minimum of $0.11 a gallon on high pro at a -- at the first cut of margin at 50 pro.

And I would say, by then, we should be realizing another potential -- no, I'm sorry, at that point, you are now $0.20 a gallon uplift. four years from now when everything is built, you'll have $0.20 a gallon uplift over the whole platform because that's the baseline.

So now you're $0.32 to $0.34 a gallon uplift over two years ago, and that's not inclusive of any other nutritional quality uplifts or protein J-curve uplift.

So it's a pretty dramatic shift from two years ago at $0.32 a gallon OpEx with nothing else going to today with $0.24 a gallon uplift -- OpEx uplift to two years from now with a $0.12 to $0.14 a gallon uplift from OpEx at $0.22, $0.11 for half the high pro to four years from now to $0.12 to $0.14 a gallon OpEx to $0.20 minimum across the whole platform, which is $0.32 to $0.34.

Then from there, potentially, it's $0.10 to $0.20 a gallon at certain levels -- at certain plants that have a nutritional characteristics built in, and that's not even inclusive of the USP business that we've built, which we're not going to break out so that's fine -- that's getting you just to crazy levels, but that's the path that we're on. That's why we're so focused on it.

Q - Kenneth Zaslow {BIO 5641218 <GO>}

Let me just rephrase this. two years ago, the industry breakeven margins, you'd probably be at a breakeven margin. Today, if they were at breakeven, you'd probably be about 10 -- about $0.08 to $0.10 margin. And two years from now, if that was a breakeven margin in the industry, you'd be about $0.22 to $0.24. Is that what I'm hearing?

A - Todd Becker {BIO 16250416 <GO>}

Inclusive of half the platform delivering on high protein, but not adding any uplift from our USP program. Yes. That is correct. You got it exactly right.

Operator

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And our last question comes from the line of David Driscoll with DD Research.

Q - David Driscoll {BIO 3978440 <GO>}

On the utilization for the plants, Project 24, Todd, I think you've said in the past that you expect at the conclusion of Project 24 that your plants will be in the top 20% most efficient plants in the industry. If that's correct, then is it also correct to think that Green Plains should fairly consistently be running at 100% utilization once Project 24 is done?

A - Todd Becker {BIO 16250416 <GO>}

Yes. Because when Project 24 is done, and we embark on protein across as we're embarking on protein across the whole system, our plants need to run every single day.

So we are going to be a max run rate and -- at all times. The things that impacted, it wasn't just a decision to slow down last quarter because of the market.

We had Madison down for permitting.

We had a Fairmont down for finishing up.

We had -- I have to think a couple -- Hereford down for market reasons.

We had Atkinson down for market reasons, and we had other ups and downs above that.

So it wasn't just a market-driven reduction because we did take some plans down for Project 24 upgrade.

But yes, you are correct to assume that as we push down into that $0.22 a gallon range OpEx and try to get lower, and we are going to try and get lower, it's meant to be in place so that we can run high protein every single day.

I would say to -- and we've made it very clear. You should not put -- you should not add on unless you can do that with your plan because you've got to be running everyday. Because if you don't deliver to your pet food customer, and they run out of product, you'll never get that customer back again, and they will probably never buy from this industry again.

Q - David Driscoll {BIO 3978440 <GO>}

Makes sense.

On the $75 million in financing, first off, congratulations on that. Very exciting to hear about your Wood River announcement. I think you said Wood River was a $50 million expenditure for that high protein. That would give you $25 million left over. It seems like you have the cash on hand to add another $25 million to get you to $50 million to announce a third plant, but you haven't made that announcement.

So I was just curious what is needed to make that next announcement for high pro number three?

Is it engineering, customer interest?

Is it the money?

Just like what's on your mind on that?

FINAL

A - Todd Becker {BIO 16250416 <GO>}

No.

We basically said we're deciding where number three is.

We're down to -- we're rank-ordering our platform, but you have to assume that number three will get announced shortly when we make our decision. You can assume that the $25 million will get used. The additional $25 million will get used for that, whether we monetize assets, whether we borrow more at project-level financing or any and all of the above, you should assume that number three is coming very quickly. And now it just depends. It depends on the site. If the site doesn't have a dryer, it's going to be more. If the site has a dryer, it'll be around that level. If it's a smaller site, it'd be lower than that level.

So we're going to make the best decision, but you should assume that, that $25 million is already spent on site number three, and we're just back-solving for the rest of it.

But it's absolutely a forthcoming announcement.

The depth of demand is there.

We have offtake -- our offtake in -- that we announced a few years ago is ready to take at least our first two or three or four plant, and that doesn't include any of our aquaculture initiatives as well.

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Q - David Driscoll {BIO 3978440 <GO>}

If I could sneak in one last one, and I really appreciate those comments, Todd.

One last one, just ethanol inventories certainly look very tight to me. Ethanol prices only look okay. I'm curious what your thought process is on, are these ethanol prices enough to encourage idled capacity to come back on the market.

I mean for me, it feels like there's a -- it's a bit odd. Ethanol inventories look so tight. I'm surprised that maybe ethanol prices aren't better, but just love to hear your thoughts on what's happening.

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A - Todd Becker {BIO 16250416 <GO>}

Well the ability for ethanol to scale up very fast and have inventories go up very fast is well known.

So I think when you look at it, we've gone to 950,000 production. I think we'll learn more about that where we're at this week.

But we've actually scaled too fast as an industry above demand.

Without the big export program, I think the market is not going to give any credit to this industry for being disciplined, is not going to reward them at all in the forward curve which is why I made those comments about government policy and getting away from undisciplined economics.

So where we're at today is while we are certainly around 20 million barrels, still adequate because of the size of the export program.

While we're at 950,000 barrels a day of production, too high relative to demand, and the market knows it.

The market also knows the inability for this industry to maintain discipline and knows that we will make too much too fast and build inventory way faster than anybody can think like we did earlier in the year.

It's just a -- that's why we will not see anything beyond a spot margin in times of tightness.

We do need to have a rebuild of this export program at this point.

We're very predictable as an industry.

Operator

Thank you.

This does conclude today's question-and-answer session. I would now like to turn the call back to Todd Becker for closing remarks.

A - Todd Becker {BIO 16250416 <GO>}

Yes. Thanks everybody, for coming on. I won't take any more time.

It was a long call today.

We covered a lot of things.

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We're making big moves as a company. You got -- obviously we're in transformation mode.

We are still subject to volatility of our big business in ethanol, but you will see this company dramatically change, and we hope you stick with us.

So thanks for being on the call today.

We'll talk to you soon. Thanks.

Operator

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

You may now disconnect.

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