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Green Plains Inc. (GPRE)

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Craig Irwin (Roth Capital Partners)

All right, thank you, everyone, for joining us. I'm Craig Irwin, covered Green Plains a long time. I don't even want to say how long, right. I'm very happy to have Chris Osowski and Phil Boggs with us today. There have been some changes at the company lately, but the fundamentals I don't think have changed all that much. So I'll start off with a question that investors sometimes absolutely don't want to ask. But in this environment, we can't skip over it at all. Ethanol crush margins, spot margins on the platform, I think they're going up a little bit. This is the time of year that we kind of step out of those shoulder months. What's going on with spot margins right now on the platform?

Phil Boggs (Green Plains)

Yes, Craig, great to be with you again. Thanks for having us out here. And for those who don't know me, I'm Phil Boggs. I'm the CFO of Green Plains. And, yes, so if you don't know, I mean, we have 10 ethanol plants that operate about 900 million gallons of capacity. Today we're running nine of those. We've temporarily idled our Fairmont facility in Minnesota, 120 million gallon facility, so we're running about 780 million gallons. And yes, crush margins, I mean, in the first quarter they're largely in line with what we saw in the fourth quarter. So it continues to be a challenging time in the ethanol crush business. I mean, it's a big important part of our business, but there are some bright spots. And so, like even last week, we saw crush margins start to expand again out on the curve, doesn't help first quarter a whole lot, but we saw crush margins begin to move up about $0.06 to $0.07 last week. Like you mentioned, we're here at this time where we're getting into the spring maintenance, spring shutdown season, and then we'll be right into summer driving season.

So from here, we believe that we have an opportunity for crush margins to expand a little bit that'll be helpful to us. The fundamentals continue to be supported by strong ethanol exports. We did 1.9 billion gallons of exports last year. Looks like we could have a repeat of that here in 2025, maybe even a little higher. Yes, I mean, there you go.

Craig Irwin (Roth Capital Partners)

That's good. That's good. So the one initiative that looks most promising right now, I'd say, is carbon, in my opinion, and was hoping you might be able to give us some color on how this takes shape on the P&L. So back end of the year could be third quarter, could be fourth quarter, right, probably more likely fourth. But is this like a step function when it comes on? Does it come on ratably? And can you maybe discuss the economics or put together the pieces for people so they understand where the $100 million annualized EBITDA comes from?

Phil Boggs (Green Plains)

Sure, yes, I'll take that one and I'll let Chris comment on some of the operational sides of that. But yes, carbon a huge opportunity here for Green Plains with what's going on in our three Nebraska plants with the Trailblazer pipeline. We've got about 287 million gallons of capacity in Nebraska that are set to come online with this carbon capture system here. Probably, we call the second half of the year, it's probably late third quarter maybe early fourth, kind of depending on final construction timelines. But this is a technology that it's known, it's proven, and when it turns on, it's going to turn on and we'll begin generating carbon credits immediately. So under the 45Z program, we'll capture about $0.02 per gallon per CI point below a 50 CI threshold. And so what does that mean for a Central City? It's got a CI that's in the low 50s, take 32 points off, you're going to be in the low 20s. When you look at that relative to that that range below 50, it's a huge contributor to the overall numbers.

So we also talk about then being able to monetize a carbon credit on that. On the earnings call, on our last earnings call, we gave out some numbers that relative to a $70 a ton carbon credit combined with 45Z net of our tariffs, we'd be at about $130 million of annualized impact. Now we've seen carbon credit values, I mean, we're – if we're a little bit more conservative on them and maybe we only get $30 a ton, then you're still over $100 million a year of annualized impact just from carbon alone in Nebraska. So when you look at that $100 million a year over those 287 million gallons, it's pretty impactful to the crush margin opportunity there in those three Nebraska plants.

Chris Osowski (Green Plains)

Yes. And on the project side of things, I feel very, very confident that we'll be able to execute this project here with the – end of Q3, beginning in Q4, we did announce this morning the startup construction on our plant sites in Nebraska. So we're moving dirt. We've had a kickoff project management meeting with our Tallgrass partners and all of our subcontractors two weeks ago. They're all moving. All machines are in play. I personally have visited the manufacturing fabrication shop where Dearing Company is assembling the compression skids that are used for the carbon sequestration process. And I can tell you it is best in class equipment. Also, our Tallgrass partners are doing quality control checks on this machinery and the automation and they are second to none. So very confident that when this project gets built that it will start up and run efficiently.

Craig Irwin (Roth Capital Partners)

So then the orders for the long lead time compression equipment were put in many months back, right. I forget exactly when, but it's at least six months behind us, right. Can you talk about the timing of the remaining CapEx as far as what Green Plains is going to spend in cash on this project?

Phil Boggs (Green Plains)

Sure. So yes, as of the end of the year, we had already spent about $18 million in CapEx. The total projects, $110 million, $120 million of total CapEx, all funded by a financing facility. So it sits under accrued liabilities on our – the financing sit under accrued liabilities. We're accruing that capital in PP&E, but really no additional cash off of our balance sheet. It's all funded. So we've got about $80 million to go.

Craig Irwin (Roth Capital Partners)

Okay. So then when we hit this proof point with Tallgrass and people see the EBITDA in the P&L, everyone is going to be asking about Summit Ag or Summit Carbon. Can you frame out for us what Summit is doing for you guys and what you see as a potential timeline there?

Phil Boggs (Green Plains)

Yes, so we have four of our facilities. Our two Minnesota and two Iowa facilities are committed on the Summit Carbon Solutions pipeline. They continue to make progress. I mean it still looks like they're a – probably en early 2027 startup. So, they've got a little bit of challenge in South Dakota and how they'll deal with the right of way situation there. But they're working through a solution. They continue to be, you know, have full belief that they'll get a project done and we'll be able to add those four plants to the mix.

Craig Irwin (Roth Capital Partners)

Excellent. So then to change gears a little bit, the restructuring has been a point of focus for investors. You announced $50 million in cost reductions, $30 million was taken out very quickly, I guess $10 million from shutting a plant as well, and then another $10 million. Can you maybe just summarize for everybody where the $30 million and then the other $20 million came from? And talk about just big picture whether or not you see other opportunities in the existing platform to continue to squeeze cost out.

Phil Boggs (Green Plains)

Yes, I'll take the lead on that one.

Craig Irwin (Roth Capital Partners)

Sure.

Phil Boggs (Green Plains)

Then I'll ask Chris to comment as well. But – so, yes, that first $30 million, so like you mentioned, Craig, $10 million of it came from just shutting down the Fairmont plant. I mean we looked at the localized margin pressure that was facing that plant and made the decision to temporarily idle that and let go most of the staff that was at that facility. So we've got that – we've got a skeleton crew up there to continue to maintain that. But our goal is in the long run is to bring that facility back online. So another $20 million of it came from – we had some executive departures inside the company, so also reducing our need to continue to invest in like the research and development related to proving out of our protein products. So we're feeding fish. We had a small Aquafeed mill and so on. And so as we have commercialized these products, we realized that we don't need to continue to invest in this. The products are known. They're accepted. They've been proven out. We have good customer adoption of these products. And so continuing to invest in the R&D behind proving those out, just something we didn't need to continue to do. And so that's where that and getting a little bit more efficient in how we do things at corporate as a result of these other reductions. We get to that other $20 million and so…

Chris Osowski (Green Plains)

Yes. At the same time, in terms of other opportunities, we still have a lot of room to go in terms of managing our plants OpEx, specifically with respect to repair and maintenance. We put a really a focused team, who's looking at pushing preventative and predictive maintenance activities and trying to reduce reactive maintenance and unplanned downtime in plants. And we think there is probably an $8 million to $10 million opportunity there in just managing that part of OpEx. At the same time, we're focused on managing, we say, CYE or chemicals, yeast and enzymes, one of the major chemical variable cost components of our plant, really honing down on KPIs in plants to benchmark our best in class performers. And we think there is probably $4 million to $6 million of opportunity in OpEx reduction there. And last a focused effort on energy reduction. Managing power factor in our plants to reduce our electrical costs or basically our cost of power is really the third area where we see a big opportunity.

Craig Irwin (Roth Capital Partners)

So then just to talk about high pro, because that's been a focus of investors for the last few years, right. There's been a lot of money spent at Green Plains on high pro. And on the front end it looked like we were talking $0.15 to $0.20 in EBITDA per gallon on some fairly chunky production. And that collapsed along with the protein complex, I guess, soy concentrates, soy meal. And I guess we're tracking somewhere around a nickel a gallon, which is where your expenses were. Is that going to be a profit contribution? Is that going to be a positive contribution to EBITDA that – with prices sort of indicating a nickel a gallon in EBITDA? Is that feasible as a positive contribution in 2025?

Phil Boggs (Green Plains)

Yes. So at that type of level, I mean, we're probably tracking $0.06 to $0.08 a gallon on the capacity that's installed. So that is a positive contributor to EBITDA in 2025. We do believe that there's some opportunity to continue to grow that as we go through the year. We're seeing greater adoption of our product into various Aquafeed markets. We mentioned on our last call that we have some new business in South America. We continue to build out that commercial channel and get into bulk vessel which starts to take some of the costs out of the supply chain as well. And we're having success in selling our sequence, our 60 Pro product into aquaculture. So the commercially we continue to be focused on how do we move away from the low commodity or like the low price customers that it's a little bit more commoditized and get it more into pet, more into aqua. And we're seeing that type of pickup and adoption in 50 and 60. I think we're also focused on continuing to drive improvement in yields and efficiencies and how we drive costs out of what it is that we make. Chris, do you want to comment?

Chris Osowski (Green Plains)

Yes, just to add to that, Phil, I mean, I think, we may be underestimated the time it would take to get these processes performing at the yield targets they were initially intended. And I can say with confidence that right now all of our assets are there producing north of 3.5 pounds a bushel of protein if not closer to four. And we're also working day in, day out to reduce the cost of manufacturing that protein, basically our enzyme and chemical cocktail recipes that help make the higher purity proteins. We're learning things as we're running these processes that allow us to help improve the mechanical separation process and reduce some of the chemical costs that are associated with making the product.

Craig Irwin (Roth Capital Partners)

So then, I guess the only way to ask this is directly, right. So, one of the criticisms out there about the high pro strategy, the high pro products, has been that they are proprietary and subscale, right. That these are products where you're using a process that came in through Fluid Quip, which, Green Plains did to accelerate the development of this technology, given the potential. And the customers, or at least the commentary is that the customers want to buy it, but they want to buy a whole lot more. And for it to actually be something relevant for them to adopt in their feed mixes or in their aquaculture, they need to buy maybe an order of magnitude more than what Green Plains is going to be able to produce. Can you maybe comment on whether or not you see that as a logical conversation?

And then a second part of the question is, the gentleman that used to be CEO of Fluid Quip, when you bought it, stepped back to that role just a couple weeks ago, a few weeks ago, is it possible that you would consider Fluid Quip as an independent entity that can offer these products or this technology, the industry as a whole?

Chris Osowski (Green Plains)

Well, I think the answer is yes. I mean, the technologies are good. We are very much excited about the portfolio of products that Fluid Quip offers to the market. Recently it was announced that our former Chief Transformation Officer, Patrich Simpkins, has taken the lead over at Fluid Quip. And if you know Patrich, he's a very driven, very motivated individual that is really focused on trying to double the revenues of the Fluid Quip Technologies Group over the next 24 months. And his plan for doing that is through offering additional services to outside ethanol producers and also companies that are maybe adjacent to ethanol or other chemical manufacturing businesses that could use the services that Fluid Quip Technologies could provide, specifically in the area of automation, precision maintenance, and then just other technical engineering functions to help reduce energy costs in plants.

Craig Irwin (Roth Capital Partners)

I mean, I'm going to circle back on this, but how do you respond to the criticism of investors that say that the production of high pro is subscale in the market, that really we need more production and the customers want it, but, because the scale isn't there, the economics aren't there. I mean, how do you address that argument?

Chris Osowski (Green Plains)

Well, I think right now it always has been, our focus is to try to reduce the cost of manufacturing to help improve the returns on that MSC process, to get more interest both internally and externally, to create more volume.

Craig Irwin (Roth Capital Partners)

Understood. Understood. Another really exciting technology that came with Fluid Quip was Clean Sugar side. I know the first article is always hard, and the ion exchange columns, and the water discharge permits and a lot of these things are not necessarily anticipated. But can you maybe just summarize for us what the investment was? Because there's people here that maybe have not looked into that in detail. And then if we kind of remove the noise of the ion exchange column, and discharge permits and look at the system on a capacity adjusted basis, how do you feel it's operating versus original expectations? Is this something you can put together a business case for additional plants based on what's been achieved?

Phil Boggs (Green Plains)

Yeah, I'll start that one and then I will have Chris cover it. So we remain very excited about our Clean Sugar technology. We have a technology that you can deploy at a dry grind ethanol plant like our own and produce equivalent dextrose that's up to 40% lower in carbon intensity than you get out of a competing windmill. And so, the initial investment case was we're going to defer a little bit of this corn grind and for Shenandoah, 200 million pound capacity for sugar would take about, 15%, 20% of their corn grind and get a much higher margin at that facility than what you would otherwise get out of ethanol.

The challenges there that we face in terms of technology, and wastewater and electricity, I will comment on that are such that, I mean, this morning we also announced that we are temporarily idling that facility so that we can maximize returns based on the overall product mix. We mentioned on our last call that based on the wastewater challenges, that we'd be at roughly a third of the capacity of that plant. And looking at how do we run campaigns and the reality is that under the current margin environment, we're going to, as we continue to commercialize and develop that business, temporarily idle that facility.

Chris Osowski (Green Plains)

Yeah, maybe first and foremost, I want to mention that the technology works. We can produce water white D95 dextrose and unrefined dextrose in this plant. So that's the number one challenge that has been accomplished. Second is with the challenges on the wastewater side that Phil mentioned, we need to build a book of business to support running that asset at full rate and additional capital investment to help make it run consistently. So right now for the Shenandoah site, the most logical solution for us is to idle that facility and run the plant as hard as it can go. This facility is performing the best out of all of our MSC fleet, achieving right at four pounds of protein per bushel and has as good of margins as any in our network. So it makes sense for us to, in the business we say grind, baby, grind, to run the plant as hard as we can to dilute our fixed costs and try to take advantage of the margin we have.

Craig Irwin (Roth Capital Partners)

Excellent, excellent. So, I wanted to see if there were questions from the audience, because I can keep rolling, but does anyone have a question they'd like to ask management?

All right, excellent. You get my questions. So, the debt investors, when they call often with the volatility in the stock are asking questions about liquidity. And I know there are periods where you run negative margins, because the opportunity cost of shutting down you would run greater negative margins. But can you maybe talk a little bit about your opportunity to control liquidity on a short term basis? And what are the other basic considerations around your hedging book and liquidity at this moment?

Phil Boggs (Green Plains)

Yeah. So in terms of liquidity, I mean, we ended last quarter with $209 million of cash on our balance sheet. Nearest term maturity is out in February of 2026. So from that standpoint, we're in good shape. Only three of our ethanol plants have any debt committed against them. So we've got room on the financing side and plenty of asset value there.

Yeah, we're in a challenging margin environment which does cause us to burn a little cash. Although, we continue to operate those plants because when we look at things relative to a variable contribution margin basis, we do come out, we'll be ahead by running hard and continuing to run those plants than we would if we would just shut everything down.

So we're focused on all of the things that are under our control, operating the best we can, taking the cost out that we can, that's why we put the cost reduction initiatives in place as we continue to try to optimize and make this business the most efficient that we can so that we can have the liquidity. In terms of margins and hedging book, I mean, we're largely been and sitting in the spot, there is not a lot that we'd like to go out and hedge at these levels. But if there is an opportunity down the road, it's something that we would look at.

Craig Irwin (Roth Capital Partners)

Understood, understood. So then I guess it's no secret that the industry's in a rough patch. Right. But where are you optimistic? I mean, this is a deeply cyclical industry and clearly we are troughing at the moment. Where are you most optimistic or where would you look for optimism or indications that we can see better days, because I know this can turn on a dime, having watched the ethanol industry for quite a while?

Chris Osowski (Green Plains)

Well, I mean, coming back to the carbon story, that is the most exciting thing that is hitting our industry and having three plants that are going to be at the forefront of getting carbon sequestration in the ground is very exciting for us as Green Plains and our employees. But then also coming back to the plants, we’ve been able to improve the performance of our plant operations in terms of throughput and yield to where we’ve been performing the best we've ever had as a fleet. So when the markets change, we have a great opportunity to take advantage of that.

Craig Irwin (Roth Capital Partners)

Excellent. Well, with that, I would like to say thank you for joining us. We got our fingers crossed for the crush over the next couple weeks and we'll track the continued progress with your different initiatives. So thank you for joining us. Thank you, everyone.

Phil Boggs (Green Plains)

Thank you for having us.