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Missouri Owned American Grown

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Show Me Ethanol News | January 2019

Note from Our General Manager:

The end of each year is always a good time to reflect on the year just past and anticipate the new year that is before us.

In the newsletters of 2018, I mentioned the issue of the small refiner hardship waivers and the significant financial damage it imposed on the ethanol industry. The waivers were meant to allow small refiners to avoid the ethanol blending requirement set forth in the RFS, if it could be shown to be a severe financial hardship. Instead, it just shifted the financial hardship to the ethanol industry. That battle is far from over and will continue to be fought. I also talked of the challenges we faced with EPA Director Pruitt. Fortunately, he was replaced, and Acting Director Andrew Wheeler is more of an advocate for renewable fuels, and in fact understands the value and benefits of ethanol to our nation.

Throughout the year, we worked to get EPA to grant a Reid Vapor Pressure (RVP) waiver for E15 and higher blends, which will allow year-round sales of E15. President Trump announced in October that we will have the waiver in place before June 2019, so that E15 will be allowed to be sold during the entire year without any relabeling or rebranding.

As the year wore on, I mentioned the impact of record industry production levels on our net margins and the lack of true seasonality on the ethanol industry. This held true until the last quarter when we saw the true effect of overproduction. Ethanol values fell off, even though we already were experiencing the lowest pricing in over 13 years.

Here are a few easy predictions for 2019: There will be more presidential tweets, the stock market will remain volatile, and ethanol opponents will continue to obfuscate, mislead, and downright lie, all to prevent consumers from knowing the truth. None of this is fresh news, but simply the world in which we operate. We will continue to work to achieve the greatest margins we can and to serve you, our members in the best way possible.

Rich Hanson

In This Issue

Our Mission Statement

To provide clean and renewable products to our customers, quality returns for our investors, while providing safe and ethical working conditions and benefits for our employees.

2018 Production Report

Happy New Year! We hope your holiday season was filled with happiness!

Operationally, the plant finished 2018 very strong, with over 5.8 million gallons of ethanol, 1.6 million pounds of corn oil, and 13,000 tons of DDGS produced. For the year, the plant produced 67 million gallons of ethanol and 18 million lbs. of distillers corn oil from 23 million bushels of corn, these are all-time highs since the plant was opened in 2008.

We strive to maximize our productivity at all times, especially when margins are tight. Our corn-to-ethanol conversion oil recovery per bushel are key metrics that we focus on. For the year, we averaged 2.978 gallons of ethanol per bushel, and 0.8 lbs. of corn oil per bushel.

With the maturing of the industry there are fewer opportunities for big step changes in productivity; so we search for continuous improvement opportunities to allow us to stay on the leading edge of plant productivity and efficiency. During the year we improved our cleaning processes to reduce contract cleaning of heat exchangers. This change included modifying our cleaning procedures and implementing a change in cleaning chemistry. In 2018 this change resulted in over $70,000 in direct savings, along with improved asset availability and throughput.

For the first quarter of 2019 we will remain focused on extracting maximum value per bushel processed, and are already deep into planning for our Spring outage scheduled for the week of March 18, 2019. I will provide a recap of the projects completed during that shut down in the next newsletter.

Brian Pasbrig
Plant Manager

Financial Results for Fourth Quarter Ended December 31, 2018

Total Sales were made up of $19.3 million of Ethanol, $6.1 million of Distiller Grains and $1.3 million of Corn Oil.

Total Expenses include Corn costs in the amount of $21.6 million. Net Loss for the fourth quarter of 2018 was $(1.8) million.

For 2018 Sales are $117 million with expenses of $114.5 million resulting in Net Income of $2.5 million. Included in year to date expenses are $85.8 million of Corn costs.

2018 Financial Metrics

(dollars in millions)	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Annual
Total Assets	52.6	51.5	52.0	46.0	46.0
Members Equity	49.5	48.4	49.2	42.4	42.4
Sales	29.1	32.2	28.9	26.7	117.0
Expenses	27.6	30.3	28.1	28.5	114.5
4th Qtr Net Loss	1.5	1.9	0.8	(1.8)	2.5
Distributions	-	3.0	-	5.0	8.0

Annual financial results from the completed independent audit of SME's Financial Statements.

George Grimes
Controller/Human Resource Director

DDG prices finish the year on the highs

Looking back over 2018 in terms of distillers marketing it was a great year. DDG prices averaged above 100 percent the value of corn with the highs just over 140 percent the value of corn late in the year. DDG prices last year ranged from 130 to 180 per ton, touching the high in late May with the run up in corn prices and once again in Dec on supply concerns. Looking at the range in prices it seems like it was a straight forward year, but in all honesty, it was far from it. Each year is a little different, but this may have been one of the most challenging and diverse years I have seen since we started production at Show Me Ethanol.

Due to our plant's location, production characteristic, and commitment to quality we have access to four major markets as well as a great local DDG market. With this comes challenges, as well as opportunities and we strive to take advantage of these any time we can. During the past twelve months we traded all four of these markets at different times taking advantage of each opportunity once it presented itself. Each market is unique, with its different customers, freight issues and specific terms and conditions. During the first quarter of 2018 DDG's primarily traded south and southwest into the poultry and cattle markets. By late spring, container values in the Kansas City region began to show signs of life, raising values and we shifted distillers to the export market via containers. That continued until the last week of May, from then until late September we saw a greater value in bulk exports and moved to loading barges instead of containers. We loaded 16 DDG barges during the summer until harvest pressure raised the price of barge freight, shifting us back to loading exports via containers. In mid-November we saw yet another shift with domestic values blossoming sending our DDG back to the domestic market and that continues today.

Typically, we don't see this much shifting during a years' time without a major market change. Something big must happen, like ban on imports for a major country or major weather impact to shift demand. This year the only major change would have been the anticipated production slowdown in December and January. But this happened much too late in the year to have much affect on where our best market for distillers would be. Although it did have a major impact on prices and brought us back to our highs in late December. It did not change where and why a certain market needed or didn't need distillers.

2018 was a fun rollercoaster ride and one I thoroughly enjoyed. So, will 2019 be the same? Not the same but given the current setup we will continue to see good opportunities for those that can be flexible, adapt to changing markets and be quality focused. Every forecast for 2019 in the commodities world has one big what if and that is China. Even though they are not taking a lot of DDG today, if that market opens it will have a huge impact on where our DDG ends up. Even though it might not be to China itself. The world market has made room for DDG in the ration, but when China comes back, it will change the flow for everyone, and we will start all over again. For more information on DDG or Modified wet feed please feel free to give me a call.

Anthony Schreiner
Merchandiser