



November 2019 Newsletter

The Quarterly Update

WPE's fiscal year closed on September 30th. It has been a tough and stressful year to say the least. However, we finished the year with a decent financial performance despite all of the challenges we faced. We are currently finalizing the audit which will be sent out in December; however, a copy of the unaudited financial results have been included with this newsletter.

Margins across the industry remained relatively tight for the final quarter of our fiscal year. However, we did see overall ethanol production volumes decrease through the quarter, dropping production rates from around 16.3 billion gallons per year during the summer to less than 15 billion gallons per year by the end of September. The decreased production was mainly driven by plant closures and slowdowns due to poor economics throughout the summer months and the fall maintenance season in late August and September. The reduced production volumes brought supply and demand into a more balanced position, and as a result margins improved in October.

As mentioned above, I have included a copy of the audited financials for the fiscal year. Operationally, we had a positive net income for the fiscal year, but you will see in the financial statements that we show a large net income loss for the quarter. This difference is because we declared a large portion of the anaerobic digester assets impaired. Since idling the facility in 2014, we maintained the full value of the assets on the balance sheet but classified them as an idled asset. While we haven't given up on finding a way to utilize the digester assets, proper accounting procedures are to impair an asset when current circumstances indicate that the carrying amount of the asset may not be recoverable from the expected future cash flows from its use or disposition. As a result, the carrying value was reduced by \$17,065,475 as of September 30, 2019.

For the fourth quarter, ethanol production was down 3.8% and grain grind was down 4.0% compared to the same time period for the previous fiscal year. This equates to an ethanol yield (production gallon/bushel grind) increase of 0.22%. Ethanol production for the year was 51.6 million gallons, which is 1.4% over the previous year. Comparatively, the grain grind increased by 1.21% year-over-year, resulting in an ethanol yield increase of 0.2%. Total revenue for this fiscal year increased by 3.0%, roughly \$2.5 million, driven mainly by an increase of 12.8% in distiller-based revenue. Grain expenses were 0.7% lower this fiscal year, while ingredient expenses were just over \$0.5 million higher year-over-year. Energy costs were slightly down, and administrative costs were 2.2% lower for this fiscal year. Comprehensive net income, prior to the anaerobic digester impairment charge, was 150% higher for this fiscal year over the previous fiscal year. A copy of the audited financials will be sent out in December as well as an estimate on 2019 taxes.

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Manager

Margins for October improved over the previous months, but November margins have seen some pressure. Looking ahead, I believe that we will need to remain focused on margins but based on conditions today I believe that we should remain net income positive through the end of 2019. Further, I believe that the ethanol plants in Kansas are probably as well as positioned this year as any across the country. In particular, Kansas producers are just finishing up a good harvest that is estimated to be the largest corn crop in Kansas history. Sorghum acreage in Kansas was down this year, but the sorghum crop also looks to be a pretty good crop. The combined corn and sorghum volumes should keep the Kansas ethanol plants in a competitive position.

Finally, I am excited to share that the board of managers and the management team recently worked through updating our strategic planning for the next 3-5 years. You will find a copy of the updated Mission, Vision, and Key Values document included with this newsletter. This is the key document that defines the overall purpose and focus for the company. In addition, we have decided that as a business we are going to prioritize our focus on two key areas. First, we will prioritize protecting and maintaining our current asset base to make sure that we retain our competitive operational advantages into the future. Second, we will also prioritize our efforts to find ways to continually reduce the carbon intensity of our products and to decarbonize our operations. A key market segment for WPE's current business is the California transportation fuel market. California's Low Carbon Fuel Standard (LCFS) is a program that pays a premium for transportation fuels that have low carbon intensity and emit lower greenhouse gas than gasoline. WPE has participated in this program since its inception in 2010, and the program is now spreading to other states. This includes Colorado who is just at the initial phase of investigating the potential to develop a similar program in their state. As similar programs are established across the country in the coming years, we must make sure that we are well positioned to both participate and prosper from these programs.

As we march through November, all of us here at WPE would like to wish you and your families a happy upcoming Thanksgiving.

The Bored Secretary

Statistics show that violent crime among teenagers has been falling for 30 years. Hard to imagine listening to the news. Speculation on the exact cause include the possibility that this decline in violent crime among teenagers may be due to the reduced lead levels in the blood of young people since lead additives in gasoline began to be reduced beginning in the 1970's. High blood levels of lead have been associated with increased violent crime rates for years.

Today, lead has been replaced by a class of toxic chemicals called aromatics, often referred to as BTX, that can make up as much as 25% of gasoline. The oil companies include these chemicals in gasoline because they make a lot more money selling these chemicals than they can replacing them with safer and cheaper alternatives.

Senator Chuck Grassley (R-Iowa) and former Senator Timothy Wirth (D-Colorado) have written a letter that includes the following: "Breathing in these toxins from car exhaust can cause cancer. Moreover, Frederica Perera, head of the Columbia Center for Children's Environmental Health, [has shown](#) through more than a decade of research that the worst emissions from those chemicals – polycyclic aromatic hydrocarbons, or PAHs – have effects on pregnant women and small children comparable to airborne lead: **low birth weight, diminished IQ and cognitive and behavioral disorders**. In addition, fine particle pollution from aromatics causes thousands of premature deaths each year.

Higher ethanol blends reduce the need for aromatics in gasoline. The reason is that ethanol has higher octane than gasoline and improves engine performance – with lower emissions. NASCAR vehicles run on 15 percent ethanol. Those blends should become standard nationwide.

We should also give more attention to the potential of higher blends of ethanol for engine performance. With wider availability, automakers could tune their engines to perform even better than they do today. [Research](#) at Oak Ridge National Laboratory has shown that mid-level blends of 25-40 percent, despite the lower energy content of ethanol, can match the vehicle fuel efficiency of cars running on today's blends. Indeed, a multiyear [study](#) by the Department of Energy points to such blends as the best way to optimize vehicle and fuel performance. Blends of 30 percent are being used by the city fleet in Watertown, S.D, with great success, and Nebraska is testing them in its state fleet. In Brazil today, every vehicle on the road (along with motorcycles and off-road equipment like boats) [runs on a minimum of 27 percent ethanol](#)."

The ongoing debate about how to reduce violent crime and mass shootings has included many proposals to limit or restrict gun ownership. Rather than banning guns in an effort to reduce violent crime in this country, maybe a better solution would be to ban BTX in gasoline. Banning BTX might also reduce other radical behavior, like the extremism on both sides of the political aisle that is paralyzing our political process.

Ben Dickman, Board Secretary

WPE Mission, Vision, and Key Values

These statements and ideals provide the overall purpose and focus of our company.

Our Mission – Our mission is an enduring definition of the purpose for our company.

WPE Mission Statement:

“WPE is an agricultural based, renewable energy production company that focuses on:

-) **Profit** - Balance profits between maintaining the infrastructure and providing shareholders with continued return on investment*
-) **People [Community]** – Provide value-added agriculture and economic development*
-) **People [Workplace]** – Provide a safe and engaging workplace for all.*
-) **People [Shareholders]** – Maximize investment value and return on investment while maintaining the intent of WPE original SEC filing.*
-) **Partners** – Conduct ourselves in an honest, fair, and professional manner when working with suppliers, vendors, neighbors, and communities.*
-) **Productivity** – Be a proactive, innovative, and forward-thinking organization*
-) **Products** – Provide valued products people want to buy*

Our Vision - The strategic plan begins with the vision. It sets the overall most important goal for WPE and provides a common direction for all stakeholders to base their actions and decisions on.

WPE Vision Statement:

WPE recognizes in today's changing business, social and political world that WPE needs to be adaptive as we produce renewable energy and co-products that are environmentally friendly and readily available to consumers. WPE wants to be recognized in the renewable energy industry as a top-tier performing company that is driven by innovation and employee engagement.

WPE Key Goals:

-) Perform in the top 25% of renewable energy producers in terms of EBITDA*
-) Maintain a strong balance sheet*
-) Proactively focus on safety*
-) Ensure regulatory and environmental compliance*
-) Commit to providing superior returns to shareholders*
-) Project decisions will be made with a focus on long-term objectives*

Our key values describe how we behave and interact amongst ourselves and others.

WPE Key Values:

-) **Leadership:** The confidence to challenge the status quo with new ideas and the courage to consider the ideas of others*
 -) **Teamwork:** Accomplish more through actively supporting, engaging, and trusting in others*
 -) **Employer of Choice:** Motivate and inspire a positive work culture*
 -) **Innovation:** Think outside the box to find a better way or new opportunities*
 -) **Accountability:** Hold ourselves and others responsible*
 -) **Quality:** Strive for excellence through continuous improvement*
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