WESTERN PLAINS ENERGY

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3022 County Rd 18 • Oakley, Kansas 67748 • Office 785-672-8810 • Fax 785-672-4494

*July 2020 Newsletter*

# The Quarterly Update

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These last few months have been interesting, and I apologize for not sending out a quarterly newsletter for the quarter ending March 31, 2020. The pandemic situation has had a sweeping effect on people around the world, and all of the associated activities in April precluded us from getting a newsletter mailed out. Thus, I have included two sets of financials with this newsletter, one for the quarter ending March 31 and one for the quarter ending June 30.

Before we dive into the details, let me share some of the key highlights over the last several months. Margins were generally tight across the industry through the summer of 2019, and higher grain pricing and over-supply of ethanol pushed some plants to shut down or slow down late in the crop year. While many in the ethanol industry were struggling, we were doing well compared to most. We were able to capitalize on some low carbon ethanol value out of California for the first half of calendar 2019, and we were fortunate to lock in favorable grain values during the summer of 2019. The reduced ethanol supply and lower priced new crop grain eased industry margin pressures for October and November 2019. However, these improved conditions only invited back additional ethanol production, and margins began eroding back to near-break even for most of the industry through December, January, and February. And then things turned worse in March. In early March, Saudi Arabia and Russia were unable to come to terms on crude oil production rates, and Saudi Arabia decided to drive oil prices down through increased production. Nearly overnight, crude oil pricing went from ~$50 per barrel down into the $20 range. This pushed gasoline and ethanol pricing lower, and suddenly the entire industry was either underwater or barely treading water.

During this same time, the impact from the COVID-19 virus was growing, and we began having internal conversations regarding the risk that the virus could impose on WPE's business. We have always tried to put the safety and well-being of our employees at the top of our priority list, and through our discussions, we built a plan that prioritized protecting the health of our employees and allowing us to continue to safely operate the facility. Our plan forced us to be creative and to challenge us to look at staffing in ways that we had not previously considered. We also implemented new cleaning policies and social distancing related policies to minimize the impact should the need for one or more employees to be quarantined for 14-days

As our initial plans were being rolled out, states across the country started implementing stay-at-home orders, and Kansas' order took effect on March 30. As a fuel supplier, the ethanol industry is considered an essential business, and we were allowed to continue operations. However, the stay-at-home orders dramatically affected gasoline demand across the country, which directly affected ethanol demand. Demand for ethanol dropped quickly, and ethanol plants across the country were forced to slow down or shutdown. Along with most plants in Kansas, we reduced to around 50% of our production capacity in early April. There were two plants in Kansas that shutdown during this time. With low crude oil pricing and low demand for ethanol, crush margins plummeted. Ethanol values were well under $1 for most of April. States began lifting stay-at-home orders in early May, and we were very fortunate to see demand for ethanol in our marketing channels pick up quickly. By mid-May, the margin structure was showing signs of improvement, and we ramped operations back up to full capacity.

I cannot thank the employees of Western Plains Energy and Western Plains Trucking enough. They truly stepped up to the plate during these times. We asked them to make many changes to our normal way of business, and we asked them to do more with less on many occasions. Yet, they answered the requests every time.

While our operational rate is back to 100% and our day-to-day is back to somewhat normal, we still have many safety protocols in place. We are still restricting visitors to the site, we have a different staffing structure, and we are being very careful with maintaining social distancing. Most of us thought that the virus situation would dissipate during the summer months, but this has proven to not be the case. I believe that we will likely need to remain vigilant through the winter months at least. So, I don't see us returning to what we used to think of as normal for quite some time.

I will forego any commentary on the financials for the quarter-ending March 31 and will instead focus on the results from this latest quarter. For the third quarter ending June 30, 2020, ethanol production was down 12.3% from the same quarter for the previous year due to the COVID-19 related slowdown in April and early May. Grain grind was down by 12.8% during this same time. This equates to an ethanol yield (production gallon/bushel grind) increase of 0.6%. We did have some dry distillers production during the quarter due to market conditions as we ramped production back up to 100%. Oil production increased by 67% for the quarter over the previous quarter, mainly due to a dramatic swing in the corn-to-milo ratio in our feedstock stream. All expenses categories were lower during this third quarter compared to last fiscal year. Ingredient expenses were down 25.2%, while energy expenses were down 14.4%. We had a small EBITDA loss for the quarter, and a relatively small net income loss. A copy of the unaudited financials are included.

Looking ahead, crush margins continued to gain strength through early July, but margins have lost value in the second half of the month. I am optimistic for the final quarter for our fiscal year. I believe that we will have a pretty good July performance, and it looks like August and September could be similar. US gasoline demand has been running around 90% of last year's demand, and the ethanol industry has done a pretty good job of maintaining a good balance between supply and demand. While we are running at full capacity, there are some plants in the industry that are still shutdown and there are others that are still operating under their production capacity. WPE has been very fortunate over the last few months. We were able to ramp production back up before many others, and we I have been surprised with how quickly our margin structure improved. The virus pandemic situation remains a threat to our industry, but we are working hard every day to put ourselves in the best position for success that we can.