SIRE
Southwest Iowa Renewable Energy LLC
Farmers Fueling Our Future
www.SIREethanol.com

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The Annual Meeting will be held virtually Friday, May 22nd at 1:00 pm
Annual Meeting Link
Please remember to vote

Newsletter - May 2020
Q2 2020

Notes from the CEO

Modified Earnings Before Income Tax Depreciation and Amortization (MEBITDA) for the second quarter (Q2 or January, February and March) 2020 was negative ($1,916,083) versus $737,975 during the same period last year. Net Income during Q2 2020 was negative ($4,749,459) versus negative ($1,815,780) during the same three months of FY 2019. After six months, MEBITDA is $4,757,454 for FY 2020 and that compares to $1,471,772 during the first six months of FY 2019. Net income after six months in FY 2020 is negative ($896,626) and was negative ($3,125,430) in the comparative period of FY 2019.

The following table provides comparative data from Q2 of our fiscal year versus the same period last year. In addition, the six-month values are provided for your reference as well.

Table 1.

Description	Q2 FY 2020	Q2 FY 2019	6 mnth FY 2020	6 mnth FY 2019
Production (den gal)	30.20 million	33.05 million	63.43 million	66.27 million
Ethanol Yield (den gal/bu)	2.898	2.899	2.922	2.890
Ethanol Price (per gal)	$1.25	$1.23	$1.34	$1.21
Corn Price (per bushel)	$3.75	$3.61	$3.74	$3.55
Corn Oil Yield (lbs/bu)	0.97	1.01	0.99	0.98
BTU's/gallon	25,149	23,946	24,144	23,880
Steam | Natural Gas cost per MMBTU	$2.718	$4.137	$2.840	$3.855
kWh/gallon	0.641	0.639	0.623	0.642
Chemical cost ($/gal)	$0.089	$0.090	$0.096	$0.098

For further performance comparison, the cost of production data on a cents per gallon basis is presented in Table 2.

Table 2.

Cost per gallon	YTD 2020	FY 2019	FY 2018
Variable	0.2234	0.2436	0.2541
Fixed	0.1136	0.1206	0.1411
G&A	0.0416	0.0375	0.0387
Total	**0.3786**	**0.4017**	**0.4339**

COVID-19 Impact

At this point, all of us have been touched in some way by the COVID-19 pandemic and subsequent actions taken to provide for public safety. At SIRE, our initial plantwide discussions and mitigation steps began during the week of March 9th. For context, May ethanol futures on the Commodity Mercantile Exchange (CME) closed at $1.23 per gallon on March 9, 2020. At the end of that week, the situation had escalated to the point that President Trump declared a National Emergency. As the market tried to digest the impact of travel restrictions, it reacted accordingly with May CME ethanol futures closing at $0.97 per gallon on Wednesday, March 18th.

Based on the pricing collapse described in the preceding paragraph and taking into account our variable operating margin, existing contract obligations, the commissioning of the Dryer Exhaust Energy Recovery system, as well as our scheduled May plant maintenance outage, the decision was made to reduce our operating rates by ~50%.

This lower level of production impacts all the metrics in Table 1. in one fashion or another. Generally, yield improves as a result of increased fermentation time and energy efficiency decreases because energy required does not decrease in proportion to decreased ethanol output. For example, March ethanol yield was 2.948 gallons per bushel versus 2.879 in February whereas energy efficiency went from 0.633 kWh per gallon in February to 0.719 kWh per gallon in March.

Similarly, while Table 2. shows good improvement in production costs over FY 2019, lower output in March is impacting that metric given there are fewer gallons to spread the costs over. Production costs for March 2020 totaled 40.43 cents per gallon.

Impact to the Third Quarter

The broad effect of essentially shutting down the economy is hard to overstate. According to the Renewable Fuels Association ("RFA"), as of April 24th, 75 ethanol facilities were totally idled, 79 are operating at significantly reduced capacity and 50 plants are near normal capacity. In total, 8.8 billion gallons of annualized production are offline with 8.4 billion gallons annualized still operating. In this environment, our focus is on preserving capital while also looking at opportunities to enhance our cash flow.

With the urgent focus on public health also came the need to address hand sanitizer that was in short supply relative to the demand. In response to the need for additional hand sanitizer the World Health Organization issued a recipe for production, the Alcohol Tax and Trade Bureau relaxed tax requirements and the Food and Drug Agency provided guidance for ethanol plants to provide alcohol for this market. SIRE employees embraced this challenge and developed a process to mix and bottle finished hand sanitizer onsite. The product was christened “SIREtizer” and to this point, we have moved over 12,000 units. Our initial focus was on providing donations to various medical facilities. That evolved into contracts with a couple government entities. We also worked with area restaurants, placing product in their establishments to provide both a place for consumers to get the product and the businesses additional “to-go” foot traffic. SIREtizer sales are obviously not a replacement for the dollars generated through “normal” operations. But it is an unexpected source of revenue that we had not counted on.

Sales of undenatured alcohol to support hand sanitizer around the country is another unexpected, but welcome, source of revenue. At this point, SIRE alcohol for hand sanitizer has been sold in 26 states, the District of Columbia and two Canadian provinces. The key question is; how long will this market be available? Our ability to participate is based on two things:

- 1. The relaxed regulatory environment to address the need.
- 2. Demand

We are currently looking at process enhancements that would allow us to produce the US Pharmaceutical grade of alcohol that is typically used in the production of hand sanitizer. Understanding the costs involved will help inform our thoughts on adding this as a regular piece of our business. Regarding demand longevity, it is prudent to review history. In 2009, H1N1 (aka. The Swine flu) broke out in North America. It lasted for approximately 20 months. There was a significant jump in hand sanitizer demand that subsided not too long after the pandemic ended. In my mind, that is as close an analogy to the COVID-19 situation that we have. But it is a bit like comparing apples and oranges. As we hear various states discuss reopening their economies, it is clear that personal protective equipment, to include hand sanitizer, is part of the plan. As of yet, it is largely unknown what specific requirements will be for businesses or governmental entities in getting back to regular operations. In any event, we will be watching this closely.

Going Forward

The ethanol industry has faced numerous challenges in the past. I expect that the impact of this COVID-19 induced downturn will permanently shutter some facilities and likely cause consolidation among others. SIRE has certainly been negatively impacted but we are well situated to survive. The plant has the right design, good location, solid team and clear-eyed board direction. In other words, a sound foundation. But we cannot sit idle. Now more than ever, the focus on our "5-10-20" plan must remain sharp. Five percent increase in efficiencies, ten percent reduction in production expense, and twenty percent improvement in energy usage and production volume. This approach will carry us forward.

It also needs to recognized that there is another team on the field. The oil interests are not relenting in their push to reduce ethanol's reach. Adhering to the adage, "no crisis should go to waste", governors of several oil producing states citied the impact of COVID-19 measures as a basis to renew a call for the Renewable Fuels Standard requirements to be waived. The ethanol industry needs to stand up and make ourselves heard. I encourage all of you to let our elected officials know the importance ethanol plays as part of a cleaner burning, high octane fuel supply specifically and agriculture generally.

Thank you for your support.

***Interested in selling your grain to SIRE? Interested in buying dried or wet distillers grain? Call Kristan Barta (712-352-5010) or Mack Walford (712-352-5017) today*.**

Sincerely,

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