



THE BEAN COUNTER

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Minnesota Soybean Processors

August 2016
www.mnsoy.com

August 2016 MnSP Newsletter

Hello again from Brewster. As we have turned to summer and the weather is much warmer, the market has also heated up. The down market of the first quarter rebounded, and May saw extraordinary movement in soybeans. Prices for beans and our products both moved higher and board crush hit historic highs at the end of May. Our marketing team was able to take advantage of this and we are set for excellent 3rd and 4th quarters.

While May was a tough month financially. Due to our annual shutdown, our sales volume was lower and our market position generating some margin calls negatively impacted cash flows. However, operations performed exceptionally well, exceeding our budget for production of meal, oil and biodiesel.

In June, all the work done to position the plant in April and May paid off and we had a great month as the market losses from May were reversed, and operating income was also excellent. With the exceptional performance of the operations team and vision of the financing and marketing teams, our financial performance for the quarter turned out to be very positive.

The last time we spoke, we were in the process of planning informational meetings to explain converting some of our A-share members to C-shares. These meetings were held in June and July and we have had an overwhelmingly positive response from our members, but we still need to get about 300 of you to convert. Our goal is to complete conversions by the end of September. Again, your status and rights as a member in MnSP, your distribution, and your investment will not be affected by this conversion. In addition, the process is simple and of no cost to you. Of course, if you deliver your beans to the plant you will still receive the member basis premium. To learn more and complete your conversion, please contact Kris Roades at (507) 842-6715. The process is simple and can be completed quickly.

As always, if there are any questions please don't hesitate to call me at 507-842-6696. I hope you all have a great, safe summer and bountiful harvest.

Scott Austin, General Manager

Plant operations in the second quarter were very good. Here are some key production numbers:

- 8,356,408 bushels crushed and 182,000 tons of meal shipped
- 63,032,612 lbs. of RB oil produced and 1.9 mm lbs. were shipped
- 8,344,126 gallons of biodiesel produced and 9mm gallons were shipped.
- 11 Unit Trains were shipped in the 2nd quarter of 2016.
- Crushing, refining and biodiesel yields have all been excellent.
- No lost time injuries, and only one 'recordable' injury which occurred during the annual shutdown. Our overall incident rate continues to trend further downward.

Projects:

- The cleanup and recovery from the bone meal contamination that you read about in the last newsletter lasted from Jan. 6, when it occurred, until June 23rd, when all beans were transferred, contamination cleaned up, and the equipment was released by Minnesota Dept. of Ag.
- The tank farm expansion was completed on July 1.
- Interior work is ongoing with the Mobile Equipment Bldg. at the plant entrance.
- Our annual shutdown for maintenance and repairs for soybean processing was from 4/29 through 5/13. For Oil refining, from 4/25 through 5/6. For Biodiesel, from 4/28 through 5/7.

Just a few accomplishments this year include:

- Opening/examining/repairing of all equipment that operates 24/7, preparing the assets for another year of production.
- Cleaning of heat exchangers to optimize efficiencies.
- Replacement of all bag filter bags to maintain our air quality standards.
- Upgrades to plant controls and electrical systems that can only be done during a full outage.
- Boiler inspections and repairs to keep them to code requirements
- Annual NDT (non-destructive testing with ultrasound) of various equipment susceptible to corrosion to be sure it will last another year.
- Resurfacing of all flaking mills to restore them to new-like condition
- Annual inspections and repairs to all steam systems and pressure relief valves.

Wayne Faulkner, Plant Manager

To recap the second quarter of 2016 is moderately problematic. I would define the months of April, May and June as radically volatile and extremely unpredictable. The driving forces behind all the fluctuations were many-faceted, as the market attempted to assess planting progress, finding a balance between weather holding farmers back, and the incredible pace farmers are able to plant the crops by utilizing new technologies such as GPS. Markets were also trying to absorb the political and global economic fallout of the United Kingdom's historic 2016 vote to leave the European Union and how that will influence exchange rates and in turn international trade, as well as attempting to comprehend all the social unrest and turbulence in the US.

Aside from that, as we transitioned into the summer growing season the market was and is faced with evaluating the impact of the severe weather patterns and quantifying this year's crop. Furthermore at the plant level we had to navigate through our annual maintenance shutdown. To illustrate, I would point out that soybean futures rallied \$3 per bushel on the CBOT. Soybean Meal futures escalated \$1.60 a ton from \$2.72 to \$4.32, while Soybean Oil tumbled from \$35.25 to \$30.78. Concurrently Board Crush skyrocketed from \$.60 ¼ to a high of \$1.74 ¾, only to come crashing back down to \$.45 by the end of May, finally to crawl back to a \$.61 close at the end of June.

Faced with these considerable challenges, MnSP was effective and profitable. To highlight some of our success, I would point out that we processed 8,356,094 bushels in the quarter. If we subtract the two weeks for our annual shutdown, that's an average run rate of 108,525 bpd. We shipped 9,103,094 gallons of biodiesel at a good profit. For the quarter we successfully loaded and shipped 11 unit trains. All while we navigated through our annual maintenance shutdown.

Another positive that we need to continue to focus on is Biodiesel. Due to a defined EPA bio fuels program for 2016, the implementation of Biodiesel in the fuel supply continues to grow. The 2017 Bio fuels programs have not been set. In order for Biodiesel to continue to grow in the fuel supply, the EPA needs to set the programs for 2017 before the 4th quarter.

Thanks to all the Production and Maintenance Staff as well as administrative and support staff for their hard work, commitment and teamwork, providing another successful and safe second quarter.

Rob Hofstra, Commercial Manager

Deja Vu All Over Again

If Yogi Berra played in the renewable fuels arena, he would feel right at home. On July 11, US EPA closed the public comment period regarding setting of renewable fuel volumes for 2017 and 2018. This annual ritual was required by Congress when they passed the 2007 Energy Independence and Security Act (EISA), establishing today's Renewable Fuel Standards (RFS) program. And in what is becoming very predictable every year, EPA seems intent on ignoring Congress' intent in setting meaningful higher volumes by using, what most think incorrectly, the two waiver provisions Congress included in EISA.

Granted, the RFS program is extremely complex, but Congress actually put in tables showing what their yearly intent was in growing the volumes of renewable fuels. That should make that part of yearly volume setting fairly straightforward. However, Congress believed in 2007 that cellulosic ethanol volumes would ramp up extremely quickly. In reality, they haven't, and EPA has used the waiver power they were given to address shortfalls in cellulosic ethanol production. Now EPA is saying that since there is a shortfall in cellulosic ethanol volumes (along with other questionable issues), biodiesel volumes must also be reduced.

EPA proposed 2.1 billion gallons of biodiesel be blended in 2018; the biodiesel industry is asking for 2.5 billion gallons be blended in 2018; very reasonable since the industry is on target to produce at least 2.5 billion gallons this year. Additionally, we are asking that the Advanced Biofuel pool, which biodiesel can be used to meet, be increased to 4.75 billion gallons from the 4.0 billion gallons EPA proposes.

MnSP has been a strong player in this rulemaking process, with company representatives participating in meetings with the White House energy staff, meetings with US Ag Secretary Tom Vilsack, testifying at EPA's June 9 hearing in Kansas City, and submitting written comments to US EPA.

Results of the biodiesel industry efforts should be known by November, 2016 - at which time the process starts all over for 2019!

Ron Marr, Director of Governmental Affairs

We have just finished the second quarter of 2016 and are showing profits of \$4.0 million for the year. Financially we performed right about where we anticipated for this quarter. Both the crush side and biodiesel side of our business have been profitable in the second quarter. Our ability to continue to export our meal and crude oil to Mexico has allowed us to continue to be profitable in a tough market. The \$1 blender's credit being reintroduced for 2016 has helped biodiesel demand and profitability to remain strong through the second quarter. We paid a cash distribution of \$.61 per share to the members in March. To date we have paid back in cash \$1.67 per share or just over \$35.1 million to you the members of MNSP. If you have questions or concerns, feel free to contact me anytime.

Rob Carstensen, Accounting Manager



Minnesota Soybean Processors

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The Estate Buyback price is set at \$2.50 per Class A unit for July, August, September 2016. Estates must apply for this program within nine months of a shareholder's date of death to be eligible. Please call 507-842-6715 for more details.

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