



# THE BEAN COUNTER

121 Zeh Ave., PO Box 100  
Brewster, MN 56119-0100

Minnesota Soybean Processors

May 2018

Hello again from sunny spring/winter Brewster Minnesota. We did have good weather for the annual meeting and had very good turnout. We elected directors from five of our districts. Here are the results: District 1 Bruce Hill District 2 Darol Schmitz District 3 Richard Trebesch District 6 Ed Smith and District 7 Mike Zins. We welcome back Mike Zins and new member Richard Trebesch to the Board of Directors.

A change to the bylaws was approved. This gives MnSP a last right of refusal on share sales. This protects your share value. It will not affect family transfers. Share sales have been very active lately from both buyers and sellers. The value has remained strong trading between \$2.75 and \$3.00 per share.

Scott Austin and Scott White gave a business overview and market analysis.

The board has sent representatives to the National Biodiesel meeting and visited Minnesota legislators as well as guest tours of the plant.

At our April board meeting the board reorganized and elected officers. The results are as follows: President Bruce Hill Vice President John Hay Secretary Tim Graber Treasurer Darol Schmitz.

Hope you have safe planting season (If this weather ever straightens out).

***Bruce Hill, Board President***

Hello again from Brewster, what a difference 90+ days can make! While 2017 was successful it was not as good a year for the soybean industry. However the start to 2018 has been very good and our industry looks to be trending up. As you will see from our financials the 1st quarter of 2018 far exceeds the results of the same period last year. In addition Minnesota's increase in the biodiesel summer blend rate doubles on May 1st from 10% to 20%. The B-20 initiative has been almost 10 years in the making with multiple challenges and legal battles, but working with our partners at the Minnesota Soybean Growers, The Minnesota Biodiesel Board, The National Biodiesel Board and other biodiesel producers in the state we have prevailed.

North Dakota Soybean Processors is still working on their equity drive, and we have extended the escrow closing date to December 31st of 2018. If you invested in NDSP please look closely at the materials that were mailed to you at the end of March, we do need those returned.

We still need about 450 of our MnSP investors to confirm their accredited investor status, please do so as soon as possible. If you have questions or are unsure if you have completed this please call Kristine Saville at (507) 842-6715 or myself at (507) 842-6696. Remember, you need to provide this information, and Thanks for your prompt response.

As most of you head toward planting season the plant heads toward our Annual Maintenance Shutdown, this year we will be down from April 27th to May 11th. For bean receiving please check our website or call our Grains Department for daily updates on operations during the shutdown.

Until next time, let's hope spring finally gets here and that you have a safe, smooth and successful planting season!

***Scott Austin, General Manager***

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First quarter production finished strong. Crush numbers for the 1<sup>st</sup> quarter 9,989,602 bushels. Meal tonnage produced was 218,398 tons. A total of 13 unit trains were completed with a focus on tonnage per car. Tonnage improved 5 tons per car from 2017's first quarter. Significant improvements have been made in the Shipping and Receiving departments to achieve this. This was done with teamwork and focus lead by a new department supervisor and hardworking technicians.

Crude oil produced was 113,170,014 lbs. 13.9MM lbs. of RB was shipped, 5.7MM lbs. of crude shipped, and 9.8 MM gallons of bio shipped.

The plant is preparing for its annual shutdown beginning April 30th. With all projects, safety is our number one priority.

MNSP employees continue to set high standards of safety, quality and efficiency, proving again that MNSP is a leader in our industry. We strive to ensure a higher standard than yesterday, and will accept nothing less. We're proud of the first quarter's accomplishments and each employee who has dedicated themselves to achieve it!

***Travis Lang, Plant Manager***

The first Quarter of 2018 presented several challenges, but also provided opportunity.

First the challenges: Our main concern and issue throughout the quarter was the performance or lack of, by the Union Pacific Railroad.

A tremendous amount of effort and energy was spent working to get enough empty covered hoppers into the plant to load and maintain our processing rate. Countless phone calls, meetings and negotiations also took place to get the UPRR to provide locomotives to pull our loaded trains of product to our customers. On average our unit trains were pulled by the railroad five days late throughout the quarter.

A strike by the Mexican dairy farmers that shutdown all rail movement through the border crossing at El Paso, TX was the main reason for the delays.

These delays caused a tremendous amount of operational inefficiency and logistical problems. In addition we contended with the typical cold temps, snow and ice that are always present in Minnesota this time of year.

To complicate matters, we were operating with limited storage space for our soybean meal due to maintenance issues with our bins.

With that said, management staff and the employees of MnSP stepped up allowing us to take advantage of the opportunities available.

### **Soybeans:**

MnSP ran at a record pace in spite of the challenges, processing over 9 Million bu. in the Quarter.

The soybean markets had significant volatility throughout the quarter that provide opportunity for farmers to market their grain and for processors to originate bushels at attractive basis levels, creating a solid margin.

The volatility was spawned by reports of dry weather and drought conditions in Argentina. It was further fueled by a strong crude oil market and a weakening of the US dollar. In addition we had perspective planting intension reports that indicated a reduction in acres for both corn (88 million acres) and soybeans (89 Million acres). We also began to hear the rumbling of hypothetical planting delays due to the cold temps and emerging weather patterns.

These rumors, reports, and facts ignited the SK18 soybeans to rally \$0.66 from 9.78 to 10.44

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### **Soybean Meal:**

The reduction in the soybean crop in Argentina shifted business for soybean products to North America . This shift created additional demand for soybean meal at improved basis levels, providing for better margins. With a crop reduction caused by the dry weather in Argentina of 30%, the demand for protein production was higher. This demand should continue through 2<sup>nd</sup> quarter of 2018.

In addition to the demand created by the potentially poor Argentinian crop, we continue to see solid demand in Mexico despite the NAFTA negotiations and logistical issues.

We also see an increase in domestic demand fueled by the robust hog and US poultry industries.

The domestic crush hit all-time records in the first quarter, supported by strong demand for products outpacing soybeans. Crush in the soybean industry is a term that represents both the physical process of converting soybeans into products

but also a value. The “Crush Value “ is a dollar amount determined by the price of soybeans relative to the combined price of meal and soy oil. This value is traded in the futures markets based on expectations of future price movements of soybeans vs the products, This value was trading at all-time highs in the first quarter, which also provided for strong opportunities and solid returns.

### **Soybean Oil:**

Soybean oil is currently being supported by the biodiesel operation.

US bio production rates have benefited from the reduction of imported biodiesel from Argentina and SE Asia.

The United States added a penalty tariff to the fuel price on imported biofuels that prevents or discourages companies from doing so, supporting domestic production and the US farmer.

Minnesota Soybean Processors biodiesel demand will be supported by an added Iowa state tax incentive to blend above 11%.

The Minnesota fuel mandate will be increased on May 1<sup>st</sup> to a 20% blend rate. The state fuel programs allows the plant to run at maximum levels. The production of biodiesel at the plant creates a stronger margin and supports a competitive bean price for local bean production.

MnSP turned in a solid performance, created by recognizing market opportunities, managing our challenges and a lot of hard work and dedication by MnSP staff and employees

***Rob Hofstra, Merchandising Manager***

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## **Frankly, It's a Mess**

There is no other way to describe the current climate for renewable fuels. Start with Philadelphia Energy Solutions (PES).

PES is the East Coast's largest refinery but isolated. PES declared bankruptcy earlier this year placing its demise on the cost of RINs which then stoked opposition to the RFS program by oil refiners. In March, PES presented a "prepackaged plan", very favorable to PES, to the Bankruptcy Court for exiting bankruptcy.

Despite all renewable energy groups meeting with EPA and Department of Justice (DoJ) officials explaining the RFS wasn't the cause of bankruptcy, coupled with the fact that the RFS law allows holding parent companies, The Carlyle Group and Sunoco, liable for RFS violations, the Bankruptcy Court approved PES' "prepackaged plan".

The impact to renewable fuels was the waiver of around \$300 million in unfilled RIN obligations. The Carlyle Group and Sunoco had pulled about \$600 million out of PES the previous 3 or 4 years.

On the heels of the PES bankruptcy came news that the EPA has been secretly granting small refiner exemptions. Small refinery exemptions are allowed under the RFS law and waive all renewable fuel blending requirements. News of EPA granting 'small refinery exemptions' to Endeavor, one of the largest US refiners, and Sinclair found that EPA had not only granted exemptions to these two large refining companies but had also granted up to 25 exemptions in 2017. EPA claims the petitions for 'small refinery exemption' are Confidential Business Information (CBI) which prohibits EPA from disclosing them.

Leaks from inside EPA indicate that in 2011 13 exemptions were granted and there are about 25 exemptions currently allowed. Because of CBI, the best-informed guess is that these exemptions reduce renewable fuel requirements by between 1 and 1.2 billion gallons. EPA has not increased blending obligations to account for the exemptions.

Lastly, on April 9, the White House and EPA and Agriculture heads met to try and find a win-win solution to the oil industry issue of RIN prices and renewable fuel needs. The gist of the meeting was there wasn't a win-win solution available and that the best course was to delay any decision for 60 to 90 days. The issue drags on. Please remember that in all things political things change and by the time you read this, it's history.

*Ron Marr, Director of Regulatory and Government Affairs*

We have just finished the first quarter of 2018 and are showing profits of \$2.2 million for the year. Financially we performed better than anticipated for this quarter. Margins on the crush and biodiesel side are improving when compared to last year. 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. As we move into the 2<sup>nd</sup> and 3<sup>rd</sup> quarters we anticipate that biodiesel will pick up due to the B20 Minnesota mandate. We paid a cash distribution of \$.1658 per share to the members in March 2018 which was \$3.524 million. In total we have paid back in cash \$45.9 million or \$2.17 per share to you the members of MNSP. If you have questions or concerns feel free to contact me anytime.

*Rob Carstensen, Accounting Manager*

<b>MINNESOTA SOYBEAN PROCESSORS</b>		<b>MINNESOTA SOYBEAN PROCESSORS</b>	
<b>BALANCE SHEET (Unaudited)</b>		<b>STATEMENT OF OPERATIONS (Unaudited)</b>	
<b>March 31, 2018</b>		<b>FOR THE THREE MONTHS ENDED</b>	
		<b>March 31, 2018</b>	
<b>ASSETS</b>			
Current Assets		Net Revenues	\$ 112,477,142
Cash & Cash Equivalents	\$ 50	Cost of Revenues	108,910,452
Cash Cobank Investment Acct	-	Selling, General & Administrative	1,370,390
Accounts Receivable	19,797,990	OPERATING INCOME	\$ 2,196,300
Inventories	38,297,184	OTHER INCOME (EXPENSE)	
Other Current Assets	6,921,679	Interest Expense	\$ (78,644)
Total Current Assets	\$ 65,016,903	Other Income/(Expense)	106,442
Other Assets		TOTAL OTHER INCOME (EXPENSE)	\$ 27,798
Net Property Plant & Equip	\$ 46,499,185	NET INCOME	\$ 2,224,098
Investments	10,238,377	Earnings Per Share	\$ 0.10
Net Financing Fees	-		
Total Other Assets	\$ 56,737,562		
<b>TOTAL ASSETS</b>	<b>\$ 121,754,465</b>		
		<b>MINNESOTA SOYBEAN PROCESSORS</b>	
		<b>STATEMENT OF CASH FLOW (Unaudited)</b>	
		<b>FOR THE THREE MONTHS ENDED</b>	
		<b>March 31, 2018</b>	
<b>LIABILITIES</b>			
Current Liabilities		NET INCOME	\$ 2,224,098
Checks in Excess of Bank Balance	\$ 2,874,651	Items not requiring Working Capital	
Accounts Payable	2,609,554	Depreciation & Amortization	1,075,561
Deferred Revenue	4,944,785	Cash Distributions Pd to Members	(3,523,790)
Note Payable - Seasonal	16,746,794	Net Decrease in Assets/Liabilities	(21,625,859)
Current Maturities of LT Debt	-	NET CASH PROVIDED BY OPERATIONS	\$ (21,849,990)
Accrued Expenses	7,579,167		
Total Current Liabilities	\$ 34,754,951	CASH USED BY INVESTING	\$ (324,666)
Noncurrent Liabilities		Cash Provided (Used) by Financing	
Deferred Revenue	\$ 2,846,000	Short Term Financing	\$ 16,746,794
		Long Term Financing	-
		Changes in Stockholders' Equity	(62,860)
		CASH USED BY FINANCING	\$ 16,683,934
<b>STOCKHOLDERS EQUITY</b>		NET INCREASE(DECREASE) IN CASH	\$ (5,490,722)
Class A Preferred Units, nonvoting		CASH AT BEGINNING OF PERIOD	\$ 5,490,772
\$.01 par value, 50,000,000 authorized		CASH AT END OF PERIOD	\$ 50
21,275,370 issued & outstanding	\$ 212,545		
Common Units, voting, \$.01 par value		Supplemental Disclosure of Cash Flow Information:	
5,000 shares authorized		Cash Paid for Interest	\$ 78,644
2,344 issued & outstanding	23		
Additional paid-in Capital	40,738,035		
Retained Earnings	43,202,911		
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>\$ 84,153,514</b>		
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$ 121,754,465</b>		

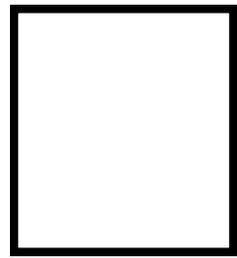
The Estate Buyback price is set at \$2.80 per Class A unit for 2nd Quarter 2018. Estates must apply for this program within nine months of a shareholder's date of death to be eligible. Please call 507-842-6715 for more details.



Minnesota Soybean Processors

PO Box 100  
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Change Service Requested



## **MnSP BOARD OF DIRECTORS**

<b><u>DISTRICT 1</u></b>	<b><u>DISTRICT 2</u></b>	<b><u>DISTRICT 3</u></b>	<b><u>DISTRICT 4</u></b>	<b><u>DISTRICT 5</u></b>	<b><u>DISTRICT 6</u></b>	<b><u>DISTRICT 7</u></b>
Bruce Hill Worthington, MN 507-842-5402	John Hay Heron Lake, MN 507-793-2861	Richard Trebesch Sleepy Eye, MN 507-794-6149	Tim Graber Hurley, SD 605-925-4689	Steven Hansen Clear Lake, SD 605-874-2313	Ed Smith West Concord, MN 507-527-2569	Bob Kirchner Brewster, MN 507-842-5592
Steffen Van Westen Reading, MN 507-478-4552	Darol Schmitz Brewster, MN 507-842-5413	Dale Hansen Morgan, MN 507-430-3367	Rick Moser Larchwood, IA 712-477-2881	Edward Verhelst Huron, SD 605-352-5564	Gary Dieterich Rudd, IA 641-832-7355	Michael Zins Fulda, MN 507-425-2632