



# THE BEAN COUNTER

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**Minnesota Soybean Processors**

**November 2018**  
[www.mnsoy.com](http://www.mnsoy.com)

The weather has been a challenge all year and this fall is no exception. The area around the plant has experienced about 200% of the average rain fall. We understand that nationwide there is an excellent crop even though the local area is lagging behind with harvest and our yields won't be as good.

Despite the weather the plant is looking forward to a very good year profit wise. The third quarter financials look very good and projections for the fourth quarter are looking good as margins remain strong.

MnSP has pursued three ventures which are starting to show results. The Advonex oil project is moving along with the closing of key investors by year end. Advonex has won several major awards in the US and Europe for their technology and innovations. They will use our oil in their process.

MnSP formed NACC our marketing branch which is developing relationships with key customers to enlarge our footprint in the industry. We are a small company but have been able to expand our customer base. NACC markets our products and will market for Advonex and NDSP.

We have hired a firm to help finish the NDSP equity drive. Since we started the NDSP project over two years ago times have changed the outlook has changed as well. The forecast for the plant has become more profitable. If you have thought about investing in the project, contact the office and we can get you the information prospectus.

The purpose of these three projects was to grow our company and increase the value of your investment.

Again I must ask you to complete the Qualified Investor Status. We desperately need more on file for the Securities and Exchange Commission. I understand your hesitation. You do not need to provide any financial information and only need to check the qualified line or write "not qualified investor" on the status form and return to MnSP. Your status makes no difference to us. We just need to have the paperwork on file

Everyone please be safe this harvest season.

***Bruce Hill, Board President***

**Hello again from Brewster.**

2018 has certainly been a rollercoaster for our industry! The last time we talked the market was struggling due to lower bean prices and commodity margins in general were down. We ended the first half of the year in good shape at about \$7M in net profit, but our strategy for taking on a bigger market position has really started to pay off and we ended this past quarter at just over \$15M in net profit (see Rob Carstensen's financials on the back page). Looking forward to the 4<sup>th</sup> quarter we have the potential to surpass even 2015's performance (that was our best year ever, if you recall).

We are still having to work very hard to overcome the challenges of our industry, with logistics being one of the most difficult, shortages of for-hire trucking and interruptions in rail service continue to require constant attention. Add to that the ever-increasing shortage of qualified labor for both staff and management and you have two key economic impacts on our business. These are common to every company and organization in every industry and require innovative approaches to solving them. Fortunately, our staff and especially the management team have taken on these challenges and continued to create value for the shareholders and our customers.

Beyond the business challenges, we've started to see some changes that will affect the soybean industry and we believe these are for the better. There are some signs that demand for soy oil, for all uses, is going to increase as demand for food and fuel continue to grow. The biggest driver of this is renewable diesel or RD. RD is a biofuel made from the same feedstocks as biodiesel but is a somewhat better product, since it is chemically the same as petroleum-based diesel, so it blends completely and doesn't have the same issues in cold weather as biodiesel. There are several companies planning or constructing large RD refineries across the country (some of these 400-500 million gallons /year production). If you're wondering, one of those plants would need all the soy oil produced by three plants of our size in Brewster.

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So, what does that mean for MnSP? First it means that NDSP is more viable than ever and there has been renewed interest from potential investors, some of whom are able to complete our equity needs by themselves. To help us with this we have hired an investment banking firm called Cappello. They are out of California but have deep roots in the ag industry and have been responsible for successful financing of several private value-added agricultural projects. I know that NDSP has taken some time and we are behind where we would like to be, but our belief in this project is higher now more than ever and we are closer than ever to getting this project over the financing hurdle and on to construction.

We still need just over 400 of our MnSP investors to confirm their accredited investor status. Please do so as soon as possible. If you have completed this we thank you and if you have agreed to convert to C shares please be patient, we need to complete the accreditation process to comply with SEC rules before we complete the conversions to C Shares. 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. We will be mailing the forms to these individual investors again in the next couple of weeks. Remember, you are required to provide this information, and thanks for your prompt response.

I hope that your harvest will get better it has been a wet and, in some parts, a snowy Fall, and hopefully the good weather we are having (as I write this) will continue and you are able to get your crops in the bin. Please be safe and have a great holiday season. Please feel free to let me know if you have questions or concerns and I'll talk to you all in 2019.

***Scott Austin, General Manager***

As we proceed into the last quarter of the year, the operations staff has a lot to be proud of. We've maintained consistent product flow throughout all processes of the plant, while maintaining a safe working environment. There's been challenges along the way from dealing with an aging facility and logistics with the rail. The MNSP staff and employees have pulled together to provide our customers with quality products in a timely manner.

As we finish off 2018 and go into 2019 the MNSP staff and employees remain focused on safety and quality. However, dealing with an aging plant comes with some challenges. The team continues to evaluate current systems throughout the facility to identify process improvement opportunity as well as needed repairs and possible replacement needs. The MNSP team is focused on a 1 to 5 year plan for continuous process improvement to ensure we can continue to provide quality products while keeping safety and efficiencies at the forefront of our operations.

As we move into the harvest we've been faced with significant weather challenges. The merchandising and operations groups have worked together to manage through the changing dynamics that the weather has brought to us. We're looking forward completing this harvest with keeping customer satisfaction at the highest of priorities.

As always, the employees that make up the MNSP team have worked very hard to make this year a successful one. The determination and dedication of the employees is greatly appreciated and cannot be understated.

***Travis Lang, Plant Manager***

The third quarter of 2018 was once again filled with many challenges as well as ample opportunity. Throughout the quarter, we dealt with the widely debated and ongoing issues surrounding the trade negotiations with China and the impact on soybean farmers and the markets.

In addition to the China tariffs, we also dealt with the negotiations between the US, Mexico and Canada on the restructuring of the North American Free Trade Agreement (NAFTA).

The US dollar index continued to rise which was not supportive of agricultural commodity prices. The stronger dollar made US exports less competitive in global markets at a time when we were being hit with retaliatory tariffs from China.

In this quarter we also experienced more than normal logistic issues as one of our customer export terminals was down for repairs following an explosion at their facility. This held up one of our private unit trains for soybean meal for 6 weeks.

At the end of the quarter in September heavy rains and flooding throughout our territory caused extensive railroad delays due to a derailment and bridge being washed out at Alton Iowa.

And as always in this quarter we had to evaluate the crop conditions and the transition from the old crop to a new crop.

All of this news and information caused a great deal of volatility in the market. We saw November soybean futures that tanked at the end of June continue to weaken throughout Q3 with a range on November bean futures from 9.24 to 8.12

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We also had ample opportunities throughout the quarter, with a more than adequate soybean supply and strong domestic demand for the products that MnSP produces: soybean meal, soy oil and biodiesel.

The strong product demand drove board crush values higher throughout the quarter. MnSP took advantage of this opportunity and extended our board crush ownership at good values.

High board crush and strong demand for our products provided for a solid margin for MnSP. By managing our risk, taking advantage of board crush, staying aggressive in the cash markets and working through the many challenges, MnSP achieved strong results in Q3.

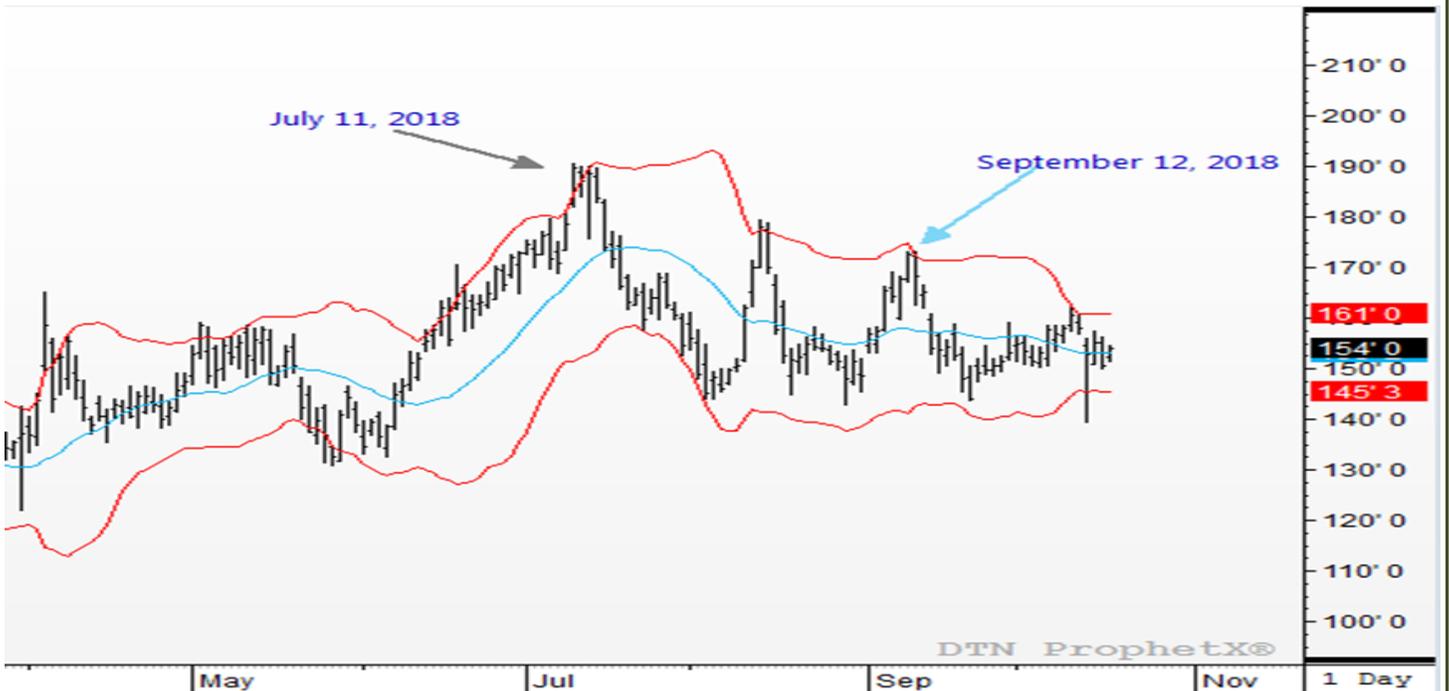
Thanks to the dedication, long hours and hard work of the operations teams, we were able to produce sound results this quarter and will continue in Q4 for a solid year.

**Rob Hofstra, Commercial Manager**

**November CBOT Soybean Futures (SX 18) Chart:**



**Board Crush Chart**



## **Soybeans, Corn, Biodiesel, Ethanol, NBB and Washington, DC.**

What do these all have in common? The public policies (laws & regulations) passed in Washington, DC directly drive the production, demand and usage of biodiesel, ethanol, corn and soybeans. What you may not know is that your business, MnSP, has a daily presence in Washington through MnSP's membership in the National Biodiesel Board (NBB).

Keeping a presence in DC is not inexpensive; NBB, headquartered in Jefferson City, MO, spends a bit more than \$2 million yearly in maintaining a DC office that provides a daily presence in Congress and federal agencies as laws and regulations are enacted. NBB has also funded legal actions addressing issues ranging from the annual setting of blending volumes of biodiesel, unfair trade practices by foreign countries to the current issue of small refinery exemptions negatively impacting renewable fuel volumes amongst others.

The Jefferson City office is focused on the marketing and support side of biodiesel which includes providing technical expertise needed to make sure biodiesel is approved by engine manufacturers, economic analysis used by the DC team to educate EPA during their annual blending volume setting, biodiesel marketing efforts and of course association accounting and administrative functions along with other topics.

The non-political functions are funded primarily by state soybean checkoff funds along with support from USB and ASA leaving biodiesel producer's dues available for critical political and lobbying purposes.

Stepping outside of the realm of biodiesel, the issue of year around E-15 has garnered lots of interest. The E-15 issue is extremely complicated because of the intricacies of the Renewable Fuel Standard and Clean Air Act. The CCA law, not regulations, regulates the inclusion of ethanol into gasoline. Very simply put, the CCA law allows a 1 pound increase in the Reid Vapor Pressure (RVP) standard for gasoline containing between 9% and 10% ethanol versus pure gasoline but only from May to September. Since the CCA law only states the waiver is good for 10% ethanol maximum, E-15 is not covered. (RVP is a measurement of how easily gasoline (and blends) evaporate.). How the E-15 issue is addressed MAY impact the biodiesel industry and NBB is actively monitoring the E-15 issue.

About the only thing most parties agree on is that any movement by EPA to give E-15 a year round exemption through rulemaking will bring a multitude of federal lawsuits. These legal actions take considerable time to litigate making immediate implementation of E-15 not likely.

***Ron Marr, Director of Regulatory and Government Affairs***

We have just finished the third quarter of 2018 and are showing profits of \$15.67 million for the year. Operationally we performed better than anticipated for this quarter. Margins on the crush and biodiesel side were very positive in the 3<sup>rd</sup> Qtr. Our ability to send unit trains of meal both foreign and domestically has allowed us to continue to be profitable in a tough market. Biodiesel was very strong in the 3<sup>rd</sup> qtr. 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>September 30, 2018</b>			<b>FOR THE NINE MONTHS ENDED</b>		
			<b>September 30, 2018</b>		
<b>ASSETS</b>					
Current Assets			Net Revenues		\$ 334,647,101
Cash & Cash Equivalents	\$	50	Cost of Revenues		314,815,733
Cash Cobank Investment Acct		1,064,392	Selling, General & Administrative		3,959,938
Accounts Receivable		19,898,656	OPERATING INCOME		\$ 15,871,430
Inventories		34,922,098	OTHER INCOME (EXPENSE)		
Other Current Assets		5,852,489	Interest Expense		\$ (460,090)
Total Current Assets	\$	61,737,685	Other Income/(Expense)		259,771
Other Assets			TOTAL OTHER INCOME (EXPENSE)		\$ (200,319)
Net Property Plant & Equip	\$	46,539,427	NET INCOME		\$ 15,671,111
Investments		10,107,530	Earnings Per Share		\$ 0.74
Net Financing Fees		-			
Total Other Assets	\$	56,646,957			
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>118,384,642</b>	<b>MINNESOTA SOYBEAN PROCESSORS</b>		
			<b>STATEMENT OF CASH FLOW (Unaudited)</b>		
<b>LIABILITIES</b>			<b>FOR THE NINE MONTHS ENDED</b>		
			<b>September 30, 2018</b>		
Current Liabilities			NET INCOME		\$ 15,671,111
Checks in Excess of Bank Balance	\$	4,691,924	Items not requiring Working Capital		
Accounts Payable		11,028,940	Depreciation & Amortization		3,065,273
Deferred Revenue		3,414,601	Cash Distributions Pd to Members		(3,523,790)
Note Payable - Seasonal		-	Net Decrease in Assets/Liabilities		(19,840,093)
Current Maturities of LT Debt		-	NET CASH PROVIDED BY OPERATIONS		\$ (4,627,499)
Accrued Expenses		1,685,090			
Total Current Liabilities	\$	20,820,555	CASH USED BY INVESTING		\$ (2,223,773)
Noncurrent Liabilities			Cash Provided (Used) by Financing		
Deferred Revenue	\$	-	Short Term Financing		\$ 2,524,242
			Long Term Financing		-
<b>STOCKHOLDERS EQUITY</b>			Changes in Stockholders' Equity		(99,300)
Class A Preferred Units, nonvoting			CASH USED BY FINANCING		\$ 2,424,942
\$ .01 par value, 50,000,000 authorized			NET INCREASE(DECREASE) IN CASH		\$ (4,426,330)
21,244,470 issued & outstanding	\$	212,445	CASH AT BEGINNING OF PERIOD		\$ 5,490,772
Common Units, voting, \$.01 par value			CASH AT END OF PERIOD		\$ 1,064,442
5,000 shares authorized					
2,344 issued & outstanding		23	Supplemental Disclosure of Cash Flow Information:		
Additional paid-in Capital		40,705,135	Cash Paid for Interest		\$ 460,090
Retained Earnings		56,646,484			
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>\$</b>	<b>97,564,087</b>			
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$</b>	<b>118,384,642</b>			

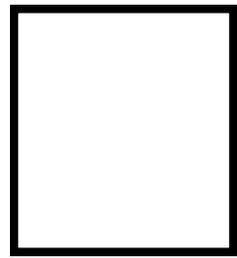
The Estate Buyback price is set at \$2.92 per Class A unit for 4th Quarter 2018 Estates must apply for this program within nine months of a shareholder's date of death to be eligible. Please call 507-842-6715 for more details.



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