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Transcript of Aemetis
Third Quarter 2018 Earnings Review Conference Call
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Participants
Todd Waltz – Executive Vice President and Chief Financial Officer
Eric McAfee – Founder, Chairman and Chief Executive Officer

Analysts
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Edward Woo – Ascendiant Capital
Anthony Marchese – Private investor
Scott Ozer – Sandlapper Securities

Presentation

Operator
Greetings, and welcome to the Aemetis Third Quarter 2018 Earnings Review Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over your host, Mr. Todd Waltz, Executive Vice President and Chief Financial Officer of Aemetis. Thank you. You may begin.

Todd Waltz – Executive Vice President and Chief Financial Officer
Thank you, Matt. Welcome to the Aemetis third quarter 2018 earnings review conference call. We suggest visiting our website at Aemetis.com to review today's earnings press release, updated corporate presentation, filings with the Security and Exchange Commission, recent press releases and previous earnings conference call. This presentation is available for review or download on the Aemetis.com homepage.

Before we begin our discussion today I'd like to read the following disclaimer statement: During today's call we'll be making forward-looking statements including without limitations statements with respect to our future stock performance, plans, opportunities and expectations with respect to financing activity and the execution of our business plan. These statements must be considered in conjunction with the disclosure and cautionary warnings that appear in our SEC filings.

Investors are cautioned that all forward-looking statements made on this call involve risk and uncertainty and that future events may differ materially from the statements made. For additional information please refer to the company's Security and Exchange Commission filing which are posted on our website and available from the company without charge.

Our discussion on this call will include a review of non-GAAP measures as a supplement to financial results based on GAAP. A reconciliation of the non-GAAP measures to the most recent comparable GAAP measures is included in our earnings release for the quarter ended September 30, 2018 which is available on our website. Adjusted EBITDA is defined as net income or loss plus to the extent deduced in calculating such net income. Interest expense, loss on extinguishment, income tax expense in tangible and other amortization expense, depreciation expense, and share based compensation expense.

Now I'd like to review the financial results for the third quarter 2018. Revenues expanded to $44 million for the third quarter of 2018, an increase of $5.7 million or 14.6% compared to $38.9 million for the third quarter of 2017. The higher revenues were driven by an 8% increase in ethanol sales volume to 16.7 million gallons from 15.4 million gallons during the third quarter of 2017 by stronger average selling price of wet distiller's grain and by stronger demand for India biodiesel. The increase in revenue translates to a higher gross profit of $2.7 million for the third quarter 2018 compared to a gross profit of $2 million during the third quarter of 2017.

Selling, General and Administrative Expenses were $3.9 million in the third quarter of 2018 compared to $3.2 million in the third quarter of 2017. Operating loss improved to $1.3 million for the third quarter of 2018 compared to an operating loss of $3.1 million for the third quarter of 2017. Net loss decreased to $6.6 million for the third quarter of 2018, an improvement compared to net loss of $8.2 million for the third quarter of 2017.

Interest expense during the third quarter of 2018 was $5.4 million compared to interest expense of $5.1 million during the first [sic] (third) quarter of 2017. Adjusted EBITDA for the third quarter of 2018 was $0.2 million, an improvement from adjusted EBITDA of -$1.6 million for the same period in 2017 representing an improvement of $1.8 million.

During the 9 months ended September 30, 2018 revenues were $132.7 million, an increase of $21.4 million or 19% compared to revenue of $111.3 million for the first 9 months of 2017. The increase in revenues translated to more than double in gross profit to $7.3 million for the first 9 months of 2018 compared to gross profit of $3.1 million during the first 9 months of 2017.

Net loss was $24 million for the third quarter of 2018 compared to a net loss of $22.7 million for the third quarter of 2017. Adjusted EBITDA for the first 9 months of 2018 was $0.5 million, an improvement of $4.7 from the -$4.2 million for the same period in 2017. That completes our financial review.

Now I'd like to introduce the Founder, Chairman and Chief Executive Officer of Aemetis, Eric McAfee for a business update. Eric?

Eric McAfee – Founder, Chairman and Chief Executive Officer
Thank you, Todd. For those of you who may be new to our company, let me take a moment to provide some brief background information. Aemetis was founded in 2006 and we own and operate production facilities with more than 110 million gallons per year of renewable fuel capacity in the US and India. Included in our production portfolio is a 60 million gallon per year capacity ethanol distillers grain and corn oil plant located in Keyes, California near Modesto. We also built, own and operate a 50 million gallon per year capacity distilled biodiesel and refined glycerin biorefinery on the east coast of India near the port city of the Kakinada.

Let's start today with an update of our $160 million low carbon advanced biofuels project in Riverbank, California. A key factor in our plant upgrade and expansion decisions has been the strong market for California low carbon fuel standard credits, which have increased from $62 per credit in July 2017 to more than $190 per credit this week and the high price of D3 Renewable Identification Numbers for cellulosic biofields and biogas that is set by federal law. The production of lower carbon corn ethanol, below zero carbon cellulosic ethanol from waste wood, and another low carbon products that generate LCFS credits in California and D3 RINs under federal law are direct opportunities to meet the goals of regulations that seek to create a lower carbon economy.

We were pleased to announce this summer that the Aemetis Advanced Biorefinery under development in Riverbank, California near Modesto was named as the number one waste-to-value project in the world by *Biofuels Digest*, the world's largest daily biofuels publisher. The Aemetis project earned its number 1 ranking as a result of our fixed price, low cost almond and walnut wood waste contract for 20 years with a fixed price of about $20 per ton for the first half of the contract period. Planned production of high value cellulosic ethanol were worth about $6 per gallon including valuable fishmeal and other byproducts, our use of patented LanzaTech microbial ethanol production technology, which was recently implemented as 16 million gallon per year capacity plant in Northern China using waste gases from a steel plant, and the planned $125 million USDA guaranteed loan to fund the Riverbank plant.

The Riverbank cellulosic ethanol plant is expected to generate more than $80 million of revenue and generate more than $50 million per year of positive cash flow by producing cellulosic ethanol from low-cost waste, orchard, vineyard forest and other construction demolition wood as feed stock. Financial closing to begin construction of the Riverbank plant is expected in the next few months primarily driven by the timing of the USDA guaranteed loan. The USDA recently confirmed that the commitment letter can be issued up to [sic] (after) completing final internal administrative processes. The planned $125 million USDA 80% guaranteed loan is a 20-year low interest rate debt financing under the 9003 biorefinery program with only interest payments and no principle payments during the first three years.

Now let's review our biodiesel business in India. We have made solid progress in the upgrade of our India plant and are on track for significant revenue and profitability improvements as the upgrades are completed and production expanded. The pretreatment unit operated intermittently during the third quarter while expanding onsite utilities to enable operations at full plant capacity by the end of this year.

As we stated earlier this year, we expect crude oil prices will be consistently above $60 per barrel, driving a higher price of diesel that has improved revenues and profitability at our India business as we commission new processing capabilities. The higher global price of diesel during Q3 2018 allowed an increase in the sales price of biodiesel and a 100% increase in biodiesel volumes compared to the third quarter of 2017.

After commissioning the new utilities upgrades and with the pretreatment capability of the plant to process lower cost feed stocks, we expect rapid increases in revenues and profitability at the India plant driven by domestic India demand and export sales primarily to Europe under existing supply agreements. The refined glycerin business is expected to continue to be a significant contributor to the revenue and operating cash flow expansion at the India plant.

Now let's review our California ethanol business. Earlier this year the EPA issued about 2.25 billion gallons of hardship waivers to oil refineries allowing these refineries to avoid purchasing biofuels credits. Since the renewal fuel standard mandates 15 billion gallons per year of ethanol, there's now 1 billion gallons of ethanol inventory in the US which is significantly more than needed. As a result, ethanol prices in margins have fallen this year putting downward price pressure on corn and other feed stocks.

There are several lawsuits against the EPA currently pending to enforce the Renewable Fuel Standard which we believe will dramatically improve profitability of ethanol producers in the US by replacing the canceled demand. The 60 million gallon Keyes ethanol plant continues to operate significantly above nameplate capacity with production increasing by about 5 million gallons in the first 9 months of 2018 compared to the first 9 months of 2017. The Keyes plant operations team continues to achieve high ethanol yields and plant uptime while engineering and implementing several ethanol plant work-related upgrades that are planned to significantly improve profitability.

Recently we announced the $5 million Mitsubishi membrane dehydration unit upgrade to replace the energy intensive molecular sieves at the Keyes plant. This upgrade is expected to reduce our carbon intensity score and improve profitability at the Keyes plant with full operation expected to occur in the third quarter of 2019. We have also made excellent progress toward the completion of the acquisition of five acres of industrial land and the key permits for a CO2 gas company to build a processing unit adjacent to the Keyes plant to convert the highly purified renewable CO2 produced by our ethanol plant into food quality liquid CO2. This project is being funded with $3 million of non-diluted debt financing for the land and Keyes plant upgrades as well as more than $20 of non-diluted funding by the C02 producer to build their plant.

Within the next few weeks we plan to announce full funding on an exciting project to significantly reduce the carbon content of the ethanol produced at the Keyes plant. The combination of these projects at the Keyes plant to reduce energy costs, lower carbon intensity, and enhance the value of our biofuels product are expected to generate more than $1 per share of additional positive cash flow as the projects are fully implemented.

In summary, we believe that our deployment of the patented LanzaTech cellulosic ethanol technology and other innovative processes to produce low carbon, low pollution, high performance renewable fuels from abundant low-cost waste feed stocks has well-positioned Aemetis to grow in the low carbon fuels industry.

Now let's take a few questions from our call participants. Matt?

Operator
Great. Thank you. At this time we will be conducting a question and answer session. [Operator instructions]. One moment please while we poll for questions.

Our first question is from Carter Driscoll from B. Riley FBR. Please go ahead.

Q: Good morning, gentlemen. First question, Eric, can you comment on the lawmaking process that Trump directed the EPA to remove the summer ban for E15, the practical implications, timeframe, potential infrastructure necessary to implement this and let this contribute to industry dynamics at least domestically? Thank you.

Eric McAfee – Founder, Chairman and Chief Executive Officer
Thank you, Carter. Excellent question. There are two components of ethanol demand. The higher priority and the more immediate is the reallocation of the 2.75 billion waived or non-enforced D6 RINs and that reallocation could happen tomorrow. The EPA just needs to announce they have reallocated the larger refineries.

The hardship waivers that they granted to smaller refineries, which is actually what federal law requires, and there's three lawsuits pending to enforce that. So that will have, as you can imagine, an immediate demand on ethanol and quite frankly about 4 billion of revenues will need to appear rather quickly driving up the margins in the business during the course of this year have largely been transferred to the oil industry.

But in the medium term, the roughly 50% increase in demand that would be represented by moving from a 10% ethanol blend of E10 to a 15% ethanol blend of E15 is, I would say, often cited as one of the highest priorities of the biofuels industry as well as the corn ethanol industry. So the president's determination roughly a month ago to publicly support E15 and to instruct the EPA to make a rulemaking before the summer driving season of next year would restrict us back to the E10 RVO, is a very significant step forward. I think it's significant in that it's very hard for the president to backtrack on that commitment and it has a direct positive impact on corn farmers which is 90 million acres of real estate in the United States.

So I think it's a commitment that will go forward but the question is one of timing. I believe that what we're going to see here is potential litigation with the oil industry that could delay the implementation of E15. This is a narrow span of time, but it's enough months—it's roughly 3 months—so that the gas station industry does not implement E15 and then basically twice a year re-sticker and reallocate their tanks back to E10. So I think that the oil industry is interested in litigating this issue.

I think that the corn industry and the biofuels industry will be pushing on the other side of the equation to see a rulemaking that's implemented in time for next year. There are already large chains of gas station retailers who stand to benefit from a profitability perspective by implementing a lower cost biofuel of a higher blend, that have already announced their expansion to E15. So I think the trend is clear. The timing is less so. So I do not expect it to have a material impact on demand in 2019.

I think the only way they have a material impact on demand and for frankly the president to show his commitment to the corn and biofuels industry is to reallocate the illegally granted waivers that, if they're not reallocated, would be essentially just the cancellation of the 15 billion gallon mandate for biofuels in the US. So that reallocation is late. It should have been done six months ago. So we didn't have this interim period and that reallocation really should be done immediately.

Q: I guess just to play devil's advocate though, that's a very politically thought process to reallocate. I mean, it's a liability even if the waiver should not have been granted because of hardship and even that is still a debatable point, I do struggle to think that they are going to be reallocated even if that is what should have been compelled at this timeframe. So that's why I come back more towards the potential to implement or remove the summer ban, but even the summer ban you'll get push back from the implementation of the Clean Air Act and contension that smog increases in utilization during the heavy summer driving season.

And I think this is one thing that makes it very challenging to come up with a more stable supply-demand dynamic for the industry and the domestic industry as a whole. And then compounding that is obviously the trade wars that we have been escalating under President Trump with China cutting off that export market that seemed right for cheap ethanol to be exported from the US. So I guess my question is if you had to rank which of those do you think is more probabilistic, which of those three would you think helped to resolve the current overcapacity in the industry?

Eric McAfee – Founder, Chairman and Chief Executive Officer
I would put one additional factor on the table and that is that under the renewable fuel standard, the EPA is not capped at 15 million gallons. That is a floor, not a cap. So active discussion is going on to actually increase the 15 billion gallons to as much as 16 billion gallons. So this granting, let's say 1 billion gallons a year, of waivers to small, unprofitable oil refiners could easily be done under a higher cap. That is on the table and is being actively discussed currently by the way.

The hardship waivers were clearly not issued for hardship. So my view is let's just enforce federal law. Once we say we're no longer going to worry about enforcing federal law, then as you can imagine all sorts of disastrous scenarios happen, right? So my view is very, very simple. An administration has to decide whether they're going to enforce congressional intent and congress is the only entity that can pass legislation. So far in the last 10 years they haven't changed renewable fuel standards. It's part of the Clean Air Act and so they'd have to open up the Clean Air Act to do so. So, I see it's very unlikely we'll see a material change to the renewable fuel standard, especially with a split congress. So what we're dealing with is very simple.

The third leg of government, the one that actually looks at what congress wrote and what they intend and then what the executive does, we have a checks and balances system that has worked. In 2017 in July the federal court said that the EPA had not complied with federal law. So my view is that the biofuels and corn industry should be more aggressive in Washington, D.C., and that they're just too nice. They're too friendly and they're too collaborative and they're too hopeful. They need to treat this much more like we have three branches of government and the third branch makes the second branch do what the first branch said is supposed to happen. I find it's unfortunate that that's the way we have to deal with it, but that's fairly common in these large policy decisions as the court interprets what congress thought and causes the executives then to implement it.

The biofuels industry, by the way, is moving toward E15 and then on to E30. As you may know, about two years ago the EPA stopped testing any engines that were not 15% ethanol compatible and about 18 months ago set out a set of procedures for E30 engines. They said, Detroit, we're going to go to E30 engines in order to get the higher mileage. So we want to work collaboratively with you to set up the testing parameters because soon we're going to require that all engines tested by EPA are actually 30% ethanol compatible.

So the EPA has done I think an excellent job at the science level in moving this forward. What they end up with frankly is trouble in the executive branch trying to get things implemented and for good reason. I fully understand the challenge that the executive branch has with different audiences, but I think we're on the right side of history. And personally I think that the court is going to easily determine exactly what they did in 2017, was that the mandate was 15 billion gallons and there is nothing in the renewable fuel standard that says if it's inconvenient or un-pleasurable then the obligated parties don't have to comply. There's no language at all that says if there's not an efficient market, they don't have to comply. It says they will comply with these mandates so that we can displace primarily OPEC, and that was the intention of the executive branch when it was originally proposed by George Bush in 2004 and 2005.

Q: No, I get it. There's just a lot of federal laws that are ignored and we're now displacing domestic production rather than OPEC through that implementation. But shifting gears, the timeframe for the USDA loan, I would have thought it would have completed all the hurdles and you would have been on path towards construction. Could you just remind us again of the timeframe? Are you still hopeful it'll be operational in late '19?

Eric McAfee – Founder, Chairman and Chief Executive Officer
Yes. I will definitely get to that. You made a very, very significant throwaway comment at the end which I completely agree with, which is that our business plan at Aemetis is to reduce the cost of our inputs in order to win in the current environment where we might not have a 15 billion gallon cellulosic ethanol—correction, corn ethanol mandate that's being implemented. We are seeking to be an enormous winner in the current pricing environment with the current demand characteristics. And so the drivers for our equation is how do we win here and then, oh by the way, they start actually enforcing federal law. Wow. We get an additional demand for ethanol like the congressional intent was. That's all upside.

So we have designed our business model to make our corn ethanol plant as well as our Riverbank cellulosic ethanol plant as well as other projects we're about to announce that are actually targeted at the highest profit, highest margin, most sustainable models, which is basically free-feed stock and quadrupling the value of the product delivery. So that is our business model is take advantage of the confusion of the current market and emerge as a very, very profitable company. In the current environment, at the current prices, current overcapacity, we would still be hitting all of our financial targets we talked about.

Now regarding Riverbank—

Q: Well may I interject for just one second if I may, Eric? Maybe just push that back for one sec. Since you've been running above nameplate capacity at Keyes, how long can you run at that level, like how many quarters without having to take some significant maintenance because that is your bridge outside of Kakinada, that is your bridge revenue until you get the Riverbank plant up and running, which clearly they're a higher margin contributor. Are you facing any annual maintenance that could in the upcoming several quarters until you have the Riverbank facility up and running, where you have to take it offline by a couple weeks?

Eric McAfee – Founder, Chairman and Chief Executive Officer
Answering your—it's a two-part question. Let me answer the first one. We have a very unique engineering team and I'm going to brag about them. Our head of engineering actually came from the dairy creamery industry and spent 33 years in that industry building very large $150 million-plus dairy creameries. And, cows get milked twice

a day, including weekends and Christmas. And so, we built this plant with the idea that you have to operate it every day of the year. We have one scheduled day per year for maintenance, all the other maintenance is done with the idea that periodic maintenance will completely renew this plant as necessary.

All plants break down, all plants have issues but we have built this system with very proactive periodic maintenance, and software solutions and other things we've implemented to be able to run at a very high up time. That is necessary and helpful to our implementation of low carbon upgrades such as the Mitsubishi membrane unit and other units. And frankly, it's one of the reasons why our company is so uniquely attractive to Mitsubishi chemical company, a $40 billion-plus revenue company with 75,000 employees.

And, we were picked as the only partner worldwide for the implementation in the corn ethanol industry. Our process is roughly 70 million gallons as compared to their largest, current implementation is 18 million gallons. They came in alongside us, they provide 100% financing and have picked us as their strategic partner for the rollout worldwide of how to do this technology in the corn ethanol plant.

So, our uptime with the ethanol plant was strategic, in order for it to be the foundation of our implementation of low carbon technologies, which we're now doing several of them.

The other point that you made and I think it's important to identify, is we do have a 50 million gallon plant we built in India. We recently upgraded which expands our revenue opportunity in India. We have additional revenue out of India in excess of $150 million per year that we are working on implementing. The Indian government hasn't been that helpful in giving us processes to get there, but that's settled down a little bit. They changed the entire tax structure for the entire country last July, called the GST. Now that the price of crude oil is up, which they don't subsidize biofuels, so if crude oil price is up that means the price of biofuel is up.

We are in a very healthy position in India. We plan to take full advantage of that in 2019 and our India team has been very focused on plant upgrade completion, including utility units this quarter so we can be well-positioned to execute well in 2019, and of course we have a signed agreement with British Petroleum to supply them primarily in Europe.

Q: But I heard you say that there was an intermittency with the pre-treatment implementation. Could you just address that?

Eric McAfee – Founder, Chairman and Chief Executive Officer
Actually we have multiple units. So, we have the pre-treatment unit that takes the feedstock, turns it into usable oil. We have the biodiesel unit. We have the glycerin unit, and other ancillary units, but those are the three major unit.

We had to expand our utilities, our boiler and electrical generation onsite in order to be able to run all three of them at the same time rather than run a unit, then shut it down and run the next unit, and shut it down. So, we were able to get the units constructed, tested, operational, but now to—and you noticed we doubled our volume in the quarter compared to the year before. But in order to scale up and really exceed that $150 million-plus per year we'll be running all three units together.

The domestic Indian market is growing rapidly. We have some very exciting customers that are in test right now that are national in scope, brand names you would know. And, as we scale up in 2019, I think, we've been constrained in our production capacity as we've made this determination to go to the very low-cost waste feed stocks. It's a template for what we're doing at our Keyes plant, as well, move to lower cost, low carbon input, and of course with our Riverbank project.

So, it's been a long time coming. The India government did not help us much at all, from a policy perspective. But I think we've achieved it despite some very serious headwinds. Now the price of crude oil is an unassailable setting of the value proposition in India.

Q: Then just back to Riverbank, this part about timeframe, you have 80% potentially secure—well, secure, but you're trying to get it across the finish line. You talked about putting some syndicates together with finance remaining. Can you update us there? And then, just timing of do you still expect operational commissioning in the latter part of 2019?

Eric McAfee – Founder, Chairman and Chief Executive Officer
I expect to be early 2020. I say that because it took us a year to get through the USDA funnel process; it should have taken a month. So, we are there now, which is excellent, but we need to actually get the final commitment letter. We should be looking to announce the final USDA commitment letter which is $125 million financing and then we would move to close based upon that commitment letter.

Q: What do you think the hold-off is?

Eric McAfee – Founder, Chairman and Chief Executive Officer
The hold-up was the office management budget. We got the approval from USDA in September of last year, and it was expected to be a couple weeks and we would actually expected to have seen the commitment letter by the end of the 2017 fiscal year, which ends in September of 2017. We're now sitting here in November 2018 and we do have a confirmation that the approval has happened. What we don't have is the physical commitment letter and so they're completing the internal final steps to get us that document. We do expect to get it this quarter.

Q: Here's the last question from me. I'll get back in the queue. There's certainly a lot political football around immigration, certainly has from at least the media clippings, put EB-5 program under the crosshairs. It is one of the things you have consistently said that it could help lower your blended interest rate expense. Can you just give us an update on what your takeaways are considering how contentious immigration has become?

Eric McAfee – Founder, Chairman and Chief Executive Officer
Absolutely. EB-5 has already played a material part in our company's capitalization. We have approximately $35 million of EB-5 funding at 3% interest rate. We are in the process of raising an additional $50 million. Of the $50 million we are currently processing about $3.5 million of the initial investors in phase two. Phase two is our Riverbank-related project. And, we have seen excellent, excellent response in India.

The H1B enforcement by the federal government has been a very positive trend for our EB-5 program. H1B is a skilled worker visa program and as the Trump administration has more closely enforced federal law in that program, we find more and more people that see the EB-5 mechanism of creating jobs in the US, ten jobs per investor, as a very reasonable pathway to achieving the same goals as an H1B, without the uncertainty of employment that H1B requires.

And so, we are very, very pleased at the broker relationships we have in India, the number of people in the pipeline. I can't announce we have all 100 investors in place but we are making excellent strides toward that, and we have a couple of things happening right now that I hope within the next two or three months we're able to announce that will uniquely position the company to be able to accelerate that process, especially in India. India is accelerating rapidly as an EB-5 funding source, and we are, of course, operating this plant in India; uniquely positioned to be a recipient of that.

We'll be talking about that a little bit more over the next even month or two as we are looking for some approvals through the EB-5 program that would accelerate the fund raising rapidly.

Q: I appreciate you answering all my questions. I'll get back in the queue. Thanks, guys.

Eric McAfee – Founder, Chairman and Chief Executive Officer
Sure, thank you.

Operator
Our next question is from Ed Woo from Ascendiant Capital. Please go ahead.

Q: Thank you for taking my question. Going back to the Riverbank timeline, when do you think you may actually start breaking ground and starting construction of the plant?

Eric McAfee – Founder, Chairman and Chief Executive Officer
We're looking to start—we actually are already in the engineering phase. The groundbreaking I would expect would be in the late first quarter and the process of procurement and all that sort of thing is happening in the first quarter. We've already gone out to vendors, gotten pricing. Technically, we're in the construction phase now. When you see the dirt moving, I would expect would be the second quarter of 2019.

Q: And do you still think it's going to be about one year of construction time?

Eric McAfee – Founder, Chairman and Chief Executive Officer
Yes, I think we'll be sitting here in the first and second quarter of 2020 working on commissioning plans and those kinds of issues.

Q: Great. And then going back to India, it's great to see you guys doubling your production, and you mentioned that you have a goal of getting to 150 million gallons through different units. How quickly do you think you can get there?

Eric McAfee – Founder, Chairman and Chief Executive Officer
It's a 50 million gallon unit and our pre-treatment unit has actually opened up an additional revenue stream for us with the upgrades we just did. So, the $150 million per year opportunity is really going to be primarily constrained just by our scale up process. We should have all of our capacity online with the completion of this utility upgrade we've got, and it's just going to be a matter of rolling out with customers and getting our foreign scale-up going with British Petroleum and other customers. It's going to be just operational execution at that point. We really wouldn't be significantly constrained by either policies or plant capacity.

So, it could be very rapid. It's really a crude oil pricing issue, as well. And if crude oil prices stay up nice and solid, then we could see a very rapid scale-up. So, we'll have better visibility as we get into the first quarter and I would certainly maybe even do a special conference call as we're launching that business. We're closing and testing right now with a number of very large new customers and looking forward to seeing very good things in the first quarter from India.

Q: Great. Just in terms of your outlook, obviously your leverage [indiscernible] in India to oil prices which have had a little bit of a pullback. What's your general deal of oil prices going forward and how that might impact your business?

Eric McAfee – Founder, Chairman and Chief Executive Officer
Well, I think everybody has an opinion of crude oil prices. Let me give you mine and it's just one of many. I think that we are in a fundamental supply-demand curve in which demand has been rising at about 1.5 million barrels per day for the last five years. And so, that demand is coming out of Asia, Europe and the US is basically flat, maybe even slightly down, but completely offset by Asia.

And here in the US, we are a little bit myopic. We're a little bit internally-focused on the amount of crude oil sitting down in Cushing, Oklahoma, and so when we have a little bit of extra crude oil primarily coming out of the Permian Basin or somewhere, Bakkens, or whatever, investors tend to panic and oversell, drive down the price of crude oil. But very quickly, the international market looks at Brent crude coming out of Europe and says, my gosh, that's $10 more expensive than the US. I think I'll buy some more US, and they start truing up the difference between the two.

So, eventually, the American price does reflect this 1.5 million barrels per year of additional demand. And, we fundamentally are going to be having to make up for the decline in pretty much every major producing oilfield outside the US by having overproduction in the US.

I was just in Singapore at the annual BP World Energy Outlook. They look out over the next 25-plus years with a chief economist of British Petroleum and the CEO of BP Asia. What's unassailable is that despite the conversion of small vehicles to electric cars, there will be probably over 110 million barrels per day of crude oil demand 20 years from now, 25 years from now, because of the many places that crude oil is used in chemicals and plastics and everywhere else in the economy. And so, that is a demand equation that has to be met by supply which currently is barely keeping up with it.

So, the political winds are blowing very strongly right now trying to get the price of crude oil to move back up. You might have noticed that OPEC is meeting this week to do exactly that. So, I'm feeling comfortable that nobody's talking about $20 or $30 crude oil, not even $40 or $50 crude oil. What everybody is talking about is it going to be $60 or is it going to be $80. Certainly, the Saudis, Venezuelans, and Iran would like to see closer to an $80 Brent. It hit $86 a month ago, and I think they're much more comfortable there with Iran sanctions in place, etc., at seeing $80+ Brent.

So, I'm pretty comfortable predicting $65 to $75. US West Texas Intermediate prices is the range that we should be in. We're trading slightly below the range because of the election yesterday.

Q: Great. You mentioned that that's a sweet spot, just because if it goes too high then that might not be good at all. But do you still see it at being around $60 to $80 is your sweet spot?

Eric McAfee – Founder, Chairman and Chief Executive Officer
I would say from the biased view of a biofuels producer, you are exactly right. If we see $100 crude oil there will be a very strong economic incentive to do infrastructure investment in utilities to drive electrification of transportation. At $60, $70, $80, the economics don't really work, and they don't really work without heavy government subsidies or irrational behavior by investors where they get free electricity for their cars temporarily or something like that if they invest in electric cars. But the rational market strongly supports renewable, low carbon emission biofuels, all the way up probably even the $90 range. It's when you get to $100, $110, $120 that I think that the electric car industry just has everybody in such a panic that we then end up spending $0.5 trillion on upgrade to the grid to support these uneconomic, or at least currently uneconomic, car infrastructures.

So, I'm personally a big fan of the $60 to $90 crude oil window.

Q: Great. Well, thank you, and good luck. Thank you.

Eric McAfee – Founder, Chairman and Chief Executive Officer
Thank you. I appreciate your question.

Operator
Our next question is from Anthony Marchese, a private investor. Please go ahead.

Q: Hi, Eric. Can you give us an update on litigation that you have outstanding?

Eric McAfee – Founder, Chairman and Chief Executive Officer
Sure. We have one acquisition out of, I think, we completed seven, and I think this was our eighth if I did the math right, in which we worked very hard to get an EPA approval for Edeniq, approximately two years ago after we signed a definitive agreement to acquire the company. When they successfully received that approval, which made the company very, very valuable, they made this determination to breach the agreement.

We are now two years later and we are in advance stages of litigation. We feel very comfortable with our position. We've found out nothing but good things in the last two years.

That being said, they're a small company. They're trying to grow and I think there's an outcome that might include settlement that would be very positive for both companies. We are excellently positioned to execute on financing growth and our relationships there are something we bring to the business deal that we could do with Edeniq. So, we do have the goal of implementing their technology at our Keyes plant. It's one of the ways that we'll be reducing our carbon content and increasing the value of our fuel.

So, I think there's a business deal to be had and we are currently expecting that that will certainly be one of the alternatives that might become very attractive as we move forward toward the actual litigation conclusion. For us, the court hearing and that process is just part of the process. It always is too expensive and always takes too long so it's been two years of work to get where we're at. But there's been no negative surprises. Frankly, we feel a lot more comfortable now than we did back in September of 2016 when we originally filed to enforce the contract.

Q: Thank you very much.

Eric McAfee – Founder, Chairman and Chief Executive Officer
Thank you, Anthony.

Operator
Our next question here is from Scott Ozer from Sandlapper Securities. Please go ahead.

Q: Good afternoon, Eric. I noticed that interest expense what up about 30%, 35%. Anything being done to lower that?

Eric McAfee – Founder, Chairman and Chief Executive Officer
Yes, I would say the principal initiative is to replace the higher interest debt with our 3% EB-5 debt. It's been slower than I'd like this year, but the current administration has put out very confusing signals to foreign investors who wish to use their capital to create jobs in the US. And so, as they've gotten more and more, I guess, clarity around the fact that their investment in EB-5 and creation of jobs is actually still fully enforceable, we've seen a rapid uptick in investor interest.

As H1B visas have become more and more difficult to retain if you're already here or to obtain if you want to come here, that has helped us a tremendous amount. We have just seen such positive movement in the last—well, since the summertime. What would that be, four months? It's really exciting to see the positive developments on EB-5 for us.

So, our business plan works: replace the expensive bridge debt with longer term 3% interest rates; do the long-term 20-year financing with the USDA; and continue to scale up our India plant to full production which adds $150 million of revenue to the company; and frankly, look for enforcement of the Federal Renewable Fuel Standard. For investors, I would say, in general, you should look at Aemetis as a Cupertino, California technology company that happens to have done the difficult work of stepping into both the biodiesel and corn ethanol industries in order to become a producer so we could actually implement higher value, lower carbon, lower cost technologies that's unique in the industry.

Both public and private companies tend to not be able to handle complexity of the commodity markets while also blending technology. But, we saw that was an absolute necessity. And, 2019, I see as a break-out year for the company with significant financings and a couple of projects that we haven't announced yet that are just very accretive to the company as the low carbon fuel standards credits are now at $190, up from $62, and we're sitting in the middle of California able to take advantage of being a supplier to those credits.

Q: Thank you. I might have missed it, but did you make any comments about the update on the legal situation with Edeniq?

Eric McAfee – Founder, Chairman and Chief Executive Officer
Yes, I mentioned we're getting near the court decision but we're frankly making settlement discussions and a business relationship that could be actually very positive for both companies a high priority. So, we've always thought very highly of the opportunity at Edeniq and we were very disappointed two years when we were unable to close the acquisition transaction. So, we're looking for something that would be good for both companies and we have absolutely no hard feelings at all about the two years of expenditure. We're looking forward and feeling very positive about what we could with their technology along with them.

Q: Okay and thank you.

Operator
Thank you. This concludes the question and answer session. I'd like to turn the floor back over to management for any closing comments.

Eric McAfee – Founder, Chairman and Chief Executive Officer
Thank you very much to our shareholders, to the analysts that joined us today. We look forward to meeting with you. Actually, I'll be at the Advanced Biofuels Leadership Conference tomorrow giving a keynote speech at about 11:20 in the morning, in San Francisco, with about 600 of our bio-economy industry leaders there. And, we're looking forward to continuing to communicate what we see is a very significant opportunity in the market to produce these lower carbon emissions, lower cost, higher value products.

Todd Waltz – Executive Vice President and Chief Financial Officer
Thank you for attending today's Aemetis earnings conference call. Please visit the Investor section of the Aemetis website where we'll post a written version and audio version of this Aemetis earnings review and business update.

Matt?

Operator
This concludes today's teleconference. You may disconnect your lines at this time. Thank you, again, for your participation.