

**Transcript of
Aemetis, Inc.
Fourth Quarter 2019 Earnings Review Conference Call
March 12, 2020**

Participants

Todd Waltz – EVP and CFO
Eric McAfee - Founder, Chairman and CEO

Analysts

Edward Woo - Ascendant Capital Markets
Shane Martin - Stonegate Capital Partners
Tom Welch - Ameriprise

Presentation

Operator

Ladies and gentlemen, welcome to the Aemetis Fourth Quarter 2019 Earnings Review Conference Call. At this time all participants are in a listen-only mode, and a brief question and answer session will follow the formal presentation. As a reminder, today's conference is being recorded.

It is now my pleasure to introduce your host, Mr. Todd Waltz, Executive Vice President and Chief Financial Officer of Aemetis, Inc. Mr. Waltz, you may begin, sir.

Todd Waltz – EVP and CFO

Thank you, Jim. Welcome to the Aemetis Fourth Quarter 2019 Earnings Review Conference Call. We suggest visiting our website at aemetis.com to review today's earnings press release, updated corporate presentation, filing with the Securities and Exchange Commission, recent press releases and previous earnings conference calls. This presentation is available for review or download on the aemetis.com home page.

Before we begin our discussion today, I'd like to read the following disclosure statement. During today's call, we'll be making forward-looking statements, including, without limitation, statements with respect to our future stock performance, plans, opportunities and expectations with respect to financing activities and the execution of our business plan. These statements must be considered in conjunction with the disclosures and cautionary warnings that appear in our SEC filings. Investors are cautioned that all forward-looking statements made on this call involve risks and uncertainties, and that future events may differ materially from the statements made. For additional information, please refer to the company's Securities and Exchange Commission filings, which are posted on our website and are 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 directly comparable GAAP measures is included in our earnings release for the quarter ended on December 31, 2019, which is available on our website.

Adjusted EBITDA is defined as net income or loss, plus to the extent deducted in calculating such net income, interest expense, loss on extinguishment, income tax expense, intangible and other amortization expense, accretion expense, depreciation expense, loss contingency on litigation and share-based compensation expense.

Now I'd like to review the financial results for the fourth quarter of 2019. Revenues were \$52.1 million for the fourth quarter of 2019 compared to \$38.8 million for the fourth quarter of 2018. Gross profit for the three months ended December 31, 2019 was \$5.8 million compared to a gross loss of \$1.9 million during the same period in 2018. The gross profit improvement was attributable to increased sales at the India plant, along with prices for ethanol increasing from \$1.57 per gallon during the three months ended December 31, 2018, to \$1.82 per gallon during the three months ended December 31, 2019, in a market where the cost of delivered corn rose slightly from \$4.89 to \$5.02 during the same respective periods.

Selling, general and administrative expenses were \$4.7 million during the fourth quarter of 2019, compared to \$4.8 million during the fourth quarter of 2018. Operating profit was \$1 million for the fourth quarter of 2019 compared to an operating loss of \$6.7 million during the fourth quarter of 2018.

Profits at the India plant resulted in an income tax expense of \$1.1 million during the fourth quarter of 2019 compared to negligible income tax expense during the fourth quarter of 2018.

Net loss attributable to Aemetis was \$6.7 million for the fourth quarter of 2019, with an additional \$900,000 attributable to non-controlling interest for a total net loss of \$7.7 million compared to a net loss attributable to Aemetis of \$11.4 million for the fourth quarter of 2018, with an additional \$900,000 attributable to non-controlling interest for a total net loss of \$12.3 million.

Cash at the end of the fourth quarter of 2019 was \$656,000 compared to \$1.2 million at the end of the fourth quarter of 2018.

Now I'd like to review the financial results for the 12 months ended December 31, 2019. Revenue increased 18% to \$202 million for the 12 months ended December 31, 2019, compared to \$171.5 million for the same period in 2018. The increase in revenue was primarily attributable to increases in the production and sales of biodiesel and glycerin in India. Gross profit for the 12 months ended December 31, 2019 increased significantly to \$12.7 million compared to \$5.4 million during the same period in 2018. Gross profit increase was attributable to higher quantity and margin from biodiesel sales in India.

Selling, general and administrative expenses were \$17.4 million during the 12 months ended December 31, 2019, compared to \$16.1 million during the same period in 2018. The increase in selling, general and administrative expenses was primarily attributable to operational support fees and professional fees that were partially offset by grant receipt for expense reimbursement.

Operating loss was \$4.9 million for the 12 months ended December 31, 2019, compared to an operating loss of \$10.9 million for the same period in 2018.

Profits at the India plant resulted in an income tax expense of \$1.1 million during 2019 compared to negligible income tax expense during the year of 2018. Net loss attributable to Aemetis was \$35.7 million for the 12 months ended December 31, 2019, with an additional \$3.8 million attributable to non-controlling interest, for a total net loss of \$39.5 million, compared to a net loss attributable to Aemetis of \$33.0 million during the same period in 2018, with an additional \$3.3 million attributable to non-controlling interest, for a total net loss of \$36.3 million.

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 CEO

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 now have four lines of business focused on supplying low carbon and below-zero carbon renewable fuels and biochemicals. Our four lines of business are: renewable biodiesel, advanced ethanol, dairy renewable natural gas and waste wood biofuels.

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. To support our carbon reduction efforts that decrease our costs and increase the value of our biofuels, we have been awarded about \$21 million of grants this year to support energy efficiency and other upgrades to our California ethanol plant.

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 Kakinada. About a year ago, we signed a \$30 million equity funding and launched a renewable natural gas project to build biogas digesters at about a dozen local dairies near our ethanol plant in California, construct a pipeline connecting the digesters to our plant, and install gas conditioning to produce carbon negative renewable natural gas, to reduce the carbon content of our ethanol production and to displace diesel by fueling natural gas trucks.

We now have signed participation agreements with 17 dairies, built and tested two dairy lagoon digesters at a cost of about \$5 million, and have designed and permitted a four mile pipeline that is now under construction to connect the dairy digesters to our ethanol plant.

In 2019, we signed financing term sheets to fund an advanced ethanol production facility in California to convert waste orchard wood and other waste biomass into about 12 million gallons of cellulosic ethanol per year. We are now in the final engineering and procurement cycle prior to completion of project financing and commitment—I'm sorry, commencement of construction of the plant. The combination of these growth and cost reduction initiatives are expected to increase our revenue to more than \$500 million per year and annual cash flow to more than \$130 million per year. This projected growth in revenues and cash flow reflects certain planned and completed upgrades of our existing plants as well as planned completion of the new dairy renewable natural gas and waste wood ethanol production facilities.

With the consistent support of California regulators and continued strong California Low Carbon Fuel Standard credit prices, Aemetis made positive progress in each of our four businesses during 2019.

Let's first review our biodiesel business in India. The total diesel market in India is approximately 25 billion gallons per year, of which less than 250 million gallons per year or about 1% is biodiesel. The 2018 National Biofuels Policy in India increased the biodiesel blending target to 5% of the diesel market, equal to more than 1.2 billion gallons per year. The national policy also outlawed the import or export of biodiesel into or out of India, thereby encouraging the expansion of domestic biodiesel and renewable diesel production capacity.

After two years of investment in construction, we completed the upgrade of our India plant in early 2019, including installation of a pretreatment unit to process lower cost and waste feedstock into oil. The biodiesel and refined glycerin plant is now fully operational, using the new feedstock pretreatment unit, the new boiler unit and other upgrades that enabled expanded plant operations towards full plant capacity of 50 million gallons per year.

On May 6 of last year, we announced that our Universal Biofuels India subsidiary was awarded a \$23 million biodiesel supply contract with the three India government-owned oil marketing companies in a public tender

process. Biodiesel shipments to the oil marketing companies began in May 2019 and grew to comprise about 70% of monthly revenues at the India plant. We are particularly pleased with this arrangement because these three government oil marketing companies supply about 70% of the diesel fuel consumed in India, and as a group represent the largest single potential biodiesel customer in the country. Under this contract, our biodiesel has fueled trucks, buses and even trains throughout India with lower cost biofuel that generates up to 90% lower particulate emissions and extremely low sulfur emissions.

We achieved the capital expenditure upgrades and the revenue ramp up at the India plant, while repaying 100% of the long-term debt at the India subsidiary and without any ownership dilution to our Aemetis parent company shareholders. Aemetis effectively owns 100% of the India subsidiary, and as a result, may use the cash created from earnings to repay Aemetis' senior debt and provide expansion funding for other renewable fuels production projects.

Additional oil marketing company purchase requests for biodiesel are expected for year 2020, and we expect to continue to participate as a key supplier under these biodiesel contracts. During the months of December and January, the primary constraint on biodiesel revenues growth in India is the seasonal colder weather from lower winter temperatures and the high cost of feedstock in late 2019 that has now decreased significantly due to the global fall in the price of crude oil. Once the existing production capacity becomes fully committed to supplying the expanding biodiesel markets in India, the India plant has the footprint to expand its capacity to 100 million gallons per year and to grow revenues to more than \$300 million per year to meet increasing biodiesel demand in India, driven by the 2018 National Biofuels Policy.

In addition to the significant progress in India, our three businesses in the U.S. achieved major milestones toward increasing revenues and sustained profitability. Let's review our California traditional ethanol business. Similar to our strategy in India, where we added a technology to allow the use of a lower-cost waste feedstock to produce biofuels, we have been upgrading our Keyes, California ethanol plant to lower input costs, reduce the carbon intensity of our biofuel and significantly increase the value of the ethanol we supply to the 1.5 billion gallon California ethanol market. We have been awarded about \$21 million of grants in the past year to fund upgrades to the Keyes plant and our renewable gas project to lower the carbon content of our biofuel and increase profitability.

In May of last year, the Keyes plant successfully reduced carbon emissions under the California Low Carbon Fuel Standard by about three carbon intensity points. The credits were effective as of January 1, 2019, and generated about \$250,000 per month of additional value from our corn ethanol sales without an increase in operating costs.

The second upgrade to the Keyes plant is a CO₂ capture and reuse project. After three years of project development, Linde Gas leased about five acres owned by Aemetis adjacent to the Keyes ethanol plant to build a CO₂ liquification plant. We completed the CO₂ capture equipment and piping for the Keyes plant in January 2020 and expect to have revenues in Q2 2020 after the CO₂ plant is fully operational. When operational, the CO₂ plant will convert the approximately 150,000 tons per year of renewable CO₂ produced by our ethanol plant into liquid CO₂ for sale to local food processors, beverage producers and other CO₂ industrial users.

About \$1.5 million per year of cash is expected to be received from CO₂ sales and the land lease for the CO₂ plant. We also expect to qualify for a CO₂ carbon capture and reuse federal tax credit that we calculate is worth more than \$5 million per year. We are currently working on an arrangement to monetize the tax credits with a financial partner.

The third upgrade to the Keyes plant is the construction of an \$8 million membrane dehydration system, financed by Mitsubishi Chemicals of Japan, and a \$1.5 million Pacific Gas and Electric grant as a strategic implementation of the Mitsubishi ZEBREX technology for the first time at a corn ethanol plant. The Mitsubishi unit was delivered to the Keyes plant in late February 2020, and is in the installation process. The ethanol dehydration unit is designed to significantly reduce petroleum natural gas usage and decrease the carbon intensity of our ethanol, and once implemented is expected to generate an estimated \$3 million per year of increased cash flow.

A fourth upgrade to the Keyes plant is a solar microarray and artificial intelligence energy management system that received an \$8 million grant from the California Energy Commission. This solar system will decrease the carbon intensity of our biofuel through the use of solar energy to displace higher carbon energy sources.

A fifth upgrade to the Keyes plant is a high-efficiency heat exchanger project that was awarded a \$1.3 million Pacific Gas and Electric grant.

And the sixth upgrade to the Keyes plant is a mechanical vapor recompression system that was awarded a \$6 million grant from the California Energy Commission that is expected to reduce natural gas use significantly.

These projects at the Keyes plant are targeted to reduce petroleum natural gas usage and costs by up to 80%, while increasing the number of Low Carbon Fuel Standard credits generated each year. The combined impact of these projects is expected to be a \$30 million per year increase in operating cash flow at the Keyes plant, not including any improvement in profit margins that are expected to occur if the EPA simply enforces federal biofuels laws.

Let's briefly review our Aemetis Biogas dairy digester and pipeline project. Methane, commonly known as natural gas, is a potent greenhouse gas that is up to 30x more powerful than carbon dioxide at capturing earth's heat. About 25% of California's methane emissions are from the waste ponds on dairy farms. To reduce damaging methane emissions, in late 2016, California passed the law known as Senate Bill 1383 that mandates the capture of biogas from dairies. Biomethane sourced from dairies can be used to replace gasoline or diesel fuel in trucks and buses to significantly reduce carbon emissions and air pollution. Along with the California State mandate, California has funded about \$75 million of annual matching grants to dairies to build biogas digesters and related systems.

We believe that capturing biogas from dairies and converting it into renewable natural gas to generate negative carbon intensity biofuels is an excellent way to reduce climate change, and create value for dairies while lowering costs for diesel truck fleets and electric vehicles. Based on our existing animal feed supply relationships with about 100 dairies and the ability to use biogas in our ethanol plant until utility pipeline approvals are obtained and pipeline injection is completed, we believe that Aemetis is uniquely positioned as 1 of only 3 ethanol companies in California who can use existing infrastructure in this manner.

After more than a year of project development and financing work, earlier this year we announced \$30 million of equity financing—I should say earlier in 2019 we announced \$30 million of equity financing and a grant award from the California Department of Food and Agriculture for two matching grants for a total of about \$3 million to build the first two dairies in our biogas project. Construction of the first two dairy digesters was completed in this quarter, and we are now building the four mile pipeline to connect the digesters with the Aemetis ethanol plant, with an expectation of beginning renewable natural gas revenues during the second quarter of 2020.

We have signed 17 participation agreements with dairies and plan to complete construction of the next 15 lagoon digesters by the end of year 2021.

Let's finish with an update on our below-zero carbon cellulosic ethanol project in Riverbank, California. We were pleased that the Aemetis advanced biorefinery, under development in Riverbank, California near Modesto, was named as the #1 waste-to-value project in the world by Biofuels Digest, the world's largest daily biofuels publisher. The Aemetis project earned its #1 ranking as a result of our fixed price, low-cost almond and walnut wood waste contract for 20 years with a cost of about \$20 per ton for the first half of the contract period, planned production of high-value cellulosic ethanol expected to be worth more than \$5 per gallon, as well as production of valuable fish meal and other byproducts and our use of the patented LanzaTech gas microbe ethanol production technology. The LanzaTech technology is now in full commercial production at a plant that opened about a year ago in Northern China that converts waste gases from a steel plant to produce ethanol.

During 2019, we announced three significant financings related to the Riverbank project: a \$5 million California Energy Commission grant to fund engineering and equipment; a \$12.5 million tax waiver that offsets equity funding required for the project; and the signing of a \$125 million United States Department of Agriculture conditional commitment letter for a 20-year debt financing under the 9003 Biorefinery program.

We are focused on completing engineering of the plant required for the negotiation of the EPC contract that will include a bonded maximum construction cost. The Riverbank cellulosic ethanol plant is expected to generate more than \$80 million of revenue and more than \$50 million per year of positive cash flow by producing cellulosic ethanol from low-cost waste, orchard, vineyard, forest and even construction demolition wood as feedstock. The financial closing to begin construction of the Riverbank plant is dependent on completing the engineering and procurement work required for the signing of the construction contract.

In summary, we believe that Aemetis holds a unique position with diversified production of low carbon renewable fuels in two attractive markets, in California and India. The profitability and 120% revenue growth at our India plant during 2019 was achieved while repaying 100% of our long-term debt in the India subsidiary. The increased profit margins from plant upgrades related to the Keyes biorefinery are expected to begin to be realized in the second quarter of 2020. The Aemetis Biogas dairy digester and pipeline project is expected to begin first gas production in the second quarter of 2020. And our planned deployment of the patented LanzaTech cellulosic ethanol technology at the Riverbank plant has positioned Aemetis to rapidly produce expanding positive cash flow from the production of low carbon, clean burning, high-performance renewable fuels from abundant, low-cost, waste biomass feedstocks.

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

Operator

Mr. McAfee, thank you. Mr. Waltz, thank you for your remarks as well. [Operator instructions]. We'll hear first from Ed Woo at Ascendant Capital.

Q: Thank you for taking my question. My question is, obviously, oil has been very, very weak and volatile. What's your best outlook on where you think oil is headed and how it's going to affect, obviously, the ethanol market?

Eric McAfee - Founder, Chairman and CEO

I'll give you the medium and long-term answer first. It will take a couple of sentences. Then we'll talk about the short term. When the price of gasoline or diesel decreases, the incentive for people to not drive long distances is decreased as well. So they are motivated to go and undertake tasks that are more energy intensive, such as buying an SUV or a pickup truck instead of a small vehicle and go ahead and take that extra two or three trips to Grandma's house every month. So the incentive, with a significant 40% reduction in gasoline prices at the pump

is for people to drive more, not to drive less. So the medium and long-term impact of ethanol is that we are a mandated blend, California being an example, with a 10% blend. Our average across the United States today is 11%. So as more gasoline is consumed, as people drive larger vehicles and drive more miles, in the medium to long term, this is very, very bullish for biofuels. This is a demand increase for biofuels. And frankly, it's not such good news for highly expensive electric vehicles, who frankly lose some of their cost justification when fuel is very inexpensive.

So it makes it more difficult for carbon reduction programs that are trying to get people to use less carbon-intensive gasoline and diesel because people tend to use more. And therefore, blending biofuels is encouraged in order to meet these Low Carbon Fuel Standard goals.

Now in the very short term, which is potentially a two week to one year timeframe, is the Saudis and the Russians having a backyard dispute about who's in control of the oil market worldwide, and I think we've seen this picture before. It started in June of 2014. It ended in January of 2016. It was about an 18-month cycle. The decline that time got to \$26 crude oil, and it took about 1.5 years for that kind of battle to get to its low point before you saw some cooperation. This time it took two days for the price of crude oil to fall to \$28 and the Saudis said in public, we are going to make this very harsh, and it's going to be a shock to the system, and they have now proposed an increase in their production capacity from 12 million barrels per day to 13 million barrels per day, and they've done all the indications necessary, quite frankly, to scare the Russians.

The Russians are stuck with a much higher cost of crude oil production. Saudis cost about \$8, Russians are estimated to be about \$42, and so this little price war will last as long as the Russians and the Saudis want to beat each other up. Now that could last as much as a year. We saw it last 18 months last time. I think with Mohammed bin Salman running the Saudi cycle, he just basically said, look, if we're going to do this, we're going to do it now. And he took the 18-month price decline and he compressed it into two days. And I think we might be quite surprised to see that Mr. Putin and Mr. Salman and the Iranian head come to agreement, and we're back at \$50 to \$60 crude oil rather quick.

Goldman Sachs believes that that's what's going to happen, that we're going to see a relatively rapid recovery as all sorts of different countries come to realize what \$33 crude oil does to their national economy. So my personal projection is we have to prepare for a year of this kind of dispute, but I think there's a political upside that could come to bear in the next month or two, where we could just have a shocking rebound in crude oil prices as the Saudis rescind their decision to overproduce. So it's a political risk, there's really no way to handicap it other than just watch for the news on what Mohammed bin Salman says over in Saudi Arabia.

Now the impact on ethanol. The short-term impact on ethanol is, we have a very slight decrease in prices, about a \$0.03 decrease on the Chicago Board of Trade for ethanol. At the same time, we had a decrease in our input costs. We are a major consumer of natural gas, and we saw natural gas prices fall. We are a consumer of corn, and corn prices, for a variety of reasons, fell. And so our input cost decreased roughly proportionate with our ethanol price, so we pretty much had no price compression or margin compression occur as a result of this dramatic fall in crude oil prices.

And we are sitting actually with a different element as a driver of our margins, and that is the EPA losing a court battle that ended in January 25 of this year, in which the last four years of EPA actions were overturned by the Federal Court regarding most of the small refinery exemptions that were issued. The net impact of that will be a dramatic increase in the demand for the physical delivery of biofuels in the United States. And we'll see how that plays out. The EPA has asked for a two-week extension to decide whether they're going to appeal it or not. But up until last Thursday, EPA had said publicly they intended to comply with the court order, which would entail the

physical delivery of 700 million gallons or more of ethanol in the US and potentially about a more than 80% reduction in the numbers of pieces of paper in the marketplace that are traded, called RINs, that are essentially avoidance mechanisms to not have to buy the physical gallons. So a reduction in the RINs in the marketplace by 80% and a 700 million gallon physical demand increase this year to comply with the 15 million gallon requirement would be a very bullish element for the ethanol business without changing the prices at the pump at all.

And here's why. We sell our product for roughly \$1.50. The customer at the pump after taxes is paying about \$2.50. We have a 65 million gallon plant, so \$1 times 65 is \$65 million, is paid to the people that drive a truck from our plant over to the retail store. And of that \$65 million, the trucking company makes a few million, the retailer makes a few million, the rest goes into the pockets of oil companies. So without changing the price at the pump, we could see a dramatic margin improvement of \$0.30, \$0.40, \$0.50 easily.

And the last time that the EPA actually enforced federal law, the ethanol business, our business, made \$0.65 per gallon every quarter for four quarters. So we, in that equation, would have the oil companies make about \$0.15 for owning a telephone and calling us and buying our product. We'd make about \$0.65, which is over \$40 million a year of positive cash flow. And that is the ordinary supply and demand equation in our industry. It's only not been in existence when federal law is violated, which it was under Obama for two years by not enforcing the law, and then for the last four years under Trump by actively issuing illegal waivers. If you listen to the Federal Court, that's what they said in their 100-page opinion.

So that's my summary of the current status, is we're awaiting the EPA's realization that sooner or later the enforcement of Federal Law has been determined by the Federal Court. And when that happens, our profitability should be reflective of a more balanced sharing of the margins with our customers.

Q: Great. And you said that that should be within the next two weeks?

Eric McAfee - Founder, Chairman and CEO

They're going to have to decide whether they support the appeal in the next two weeks. The appeal will be a process that takes three to four months and is expected to fail. And the reason why it's expected to fail is it's the unanimous decision by the appellate court in a 100-page decision that's an open and shut case, and so there's really not a question for the Supreme Court to deal with in terms of conflicts of laws or anything else. So in the legal treatises that I've heard and read on this topic, it's a guaranteed loser. And so in the political season we're in, to lose a major case that was fought aggressively against farmers and against biofuels industry players is just not a great idea for a guy who wants to be reelected President of the United States.

So it makes no political sense at all that the EPA would oppose and not fully implement the court decision in January. There's only really two refiners that benefit, one is owned by Carl Icahn. And so I think that there was just a political mistake made by requesting an extension for 15 days. And we should know 15 days from now whether that political mistake is exacerbated and made worse by actually filing for an appeal. It makes no sense at all that the Trump administration would do so. But we're waiting and seeing. That's March 24, by the way, is the date. March 24 is the date in which the EPA either has to state how they're going to enforce the law or ask for an appeal of the law.

Q: Great. Thank you for answering my questions, and I wish you guys good luck. Thank you.

Eric McAfee - Founder, Chairman and CEO

Thanks, appreciate it.

Operator

We'll take our next question from the line of Shane Martin at Stonegate. Go ahead, your line is open.

Q: I know it's kind of early innings as far as India is concerned, but can you guys give me any color as to how kind of India operations have been hampered, if at all, by the coronavirus in terms of both demand and also if there's any kind of operational disruptions that you guys are seeing? Just kind of an overall impact thus far, if any?

Eric McAfee - Founder, Chairman and CEO

Yes, good question. I would take the coronavirus and have a derivative being oil prices because it was a demand decrease from coronavirus that caused some of the upset in the Saudi-Russian relationship. They're basically fighting over a smaller market. The direct impact is that in India historically, we have sold our biodiesel as a 100% replacement for diesel. So unlike in the United States where you blend biodiesel with diesel, India is a warm country, and so for about ten months a year the trucks and mining machines and construction machines that buy and use our product don't actually have any petroleum diesel in their tanks. They are 100% running on our fuel.

And so the immediate impact in India has not been noticeable in terms of demand reduction. India is not listed as one of the major COVID-19 countries. They don't have major widespread shutdowns or anything yet. And the sectors that we're selling to, specifically mining, construction, highway equipment, et cetera, tend to be more in the infrastructure development and not so much consumer environment. So we're probably going to have a more muted demand response in our particular market, India, because we're selling to businesses who are under contract to build things. And we're not really dependent at all on consumer use and whether people are driving to work or not.

Indirectly though, the price of crude oil declining means that we're competing against a lower-priced commodity. Now the 2018 National Biofuels Policy has this 1.2 billion gallon goal and the entire production capacity in the country is 250 million gallons. And they specifically have a mandate to try to set a price that's going to encourage us to reinvest in expansion of our capacity. Our current capacity is 50 million gallons, and the government would like it to be 100 million gallons. So this tender process, this bidding process, has about five suppliers in the country. We founded the Biodiesel Manufacturers Association, so we have relationships with all those suppliers. And the result of this process, which should be a two to three month process, is to end up with a price that is profitable enough for us to not only supply but also to expand our operations. And we'll be able to, probably by May, have that tender process completed and are seeking a price that is attractive, like it was last year, and enables our profitability to be reinvested in the expansion growth of both revenues as well as profits.

Q: Okay, great. And then can you give me an idea as far as the SG&A outlook for the India segment for 2020, more specifically what the operating support charges are going to look like for that going forward?

Eric McAfee - Founder, Chairman and CEO

India is a very inexpensive country to operate in. I'm going to estimate less than \$1 million for all in staff and overhead, accounting and legal and everything else.

Q: Okay. And then can you give an idea, kind of switching over to the US market, the \$30 million increase in operating cash flow. Can you give kind of an idea, I know you've outlined some of the things that are going to come online this year in Q2 and kind of later in the year. Can you give an idea of kind of how much of that \$30 million increase in operating cash flow we could see kind of fall in line here in 2020 and then maybe in 2021 as well?

Eric McAfee - Founder, Chairman and CEO

Yes. I haven't come out with a quarterly number that we've published, but we do have an annual number. And let me give you a run rate concept. From a run rate perspective, we'd be looking at accomplishing about \$12 million of that improvement by the end of this year from a run rate. So some is going to scale up in the second, some in the third, some in the fourth quarter. We would be looking to exit, and this assumes that we get our solar project built as well, so we'll be exiting this year with about \$1 million a month of improved cash flow. The final project, which is that mechanical vapor recompression project would be a 2021 project. And when you layer that on with some other continued expansion, that's where we get up to the roughly \$30 million. So we would be looking to exit 2021 with the full \$30 million in place.

Now we can accelerate that time frame. The time frame I gave you was seven quarters. And so we can accelerate that. It's all really subject to the financing and grant process. Grants tend to be pretty administratively slow, so the scale I'm giving you is really just reflecting that. But we are making concerted efforts to accelerate that process. The actual construction cycle could be half a year quicker than that. So the upside would be that instead of being fourth quarter of 2021 run rate, it ends up being the second quarter of 2021 run rate. But our bogey is without any enforcement by the EPA of federal law, not at all, that we would improve our monthly cash flow by approximately \$2.5 million per month just by creating more Low Carbon Fuel Standard benefiting projects and decreasing our input costs.

Q: Okay, great. And then last question for me, kind of capex outlay for 2020. What does that kind of look like for you guys? And how much of that is kind of the growth capex for you?

Eric McAfee - Founder, Chairman and CEO

Yes. I haven't added that number up. If we take the MVR and put it aside, we're talking about—and let me do it on a project basis because I think it'd be more helpful that way. We have a subsidiary, Aemetis Biogas, which has no debt, has a \$30 million equity commitment and has already approximately between what we filed and we expect to file, we could get as much as \$30 million of grants in that subsidiary. So \$30 million of equity, \$30 million of grant gives a total budget of about \$60 million. So we'll be spending about almost \$60 million of capex in that subsidiary to build out over the next year or so the 12 dairies that are our initial phase. And so the capex budget is a little south of \$60 million.

But the source of funding is, half of it comes from grants, which is State of California supporting what we're doing. The other half is from this non-dilutive equity funding, where we sold preferred equity at our subsidiary, and then we automatically buy it back, and it's capped. It's not a debt instrument. It doesn't have interest in it. It's just capped and without us investing any capital, we receive 25% of the cash flow from operations in the initial period. And then after it's fully redeemed, we get 100% of the cash flow. So we end up with 100% ownership and don't actually have a capital investment budget provided by the parent company, and we get 25% of cash flow upfront from the operation of the project.

So when you say capex, most people think, oh, oh, this company is going to have to go get a bunch of debt or it's going to have to somehow dilute shareholders or otherwise. We have structured each one of our activities as being grant funded with some sort of a bridge mechanism that is automatically self-financed through the mechanism of the financing. Mitsubishi 100% finance their equipment and \$1.5 million PG&E grant made up the gap. So that financing structure is a grant plus Mitsubishi self-financing it, paid out of increased cash flow. And I think we're about even in terms of the number of shares outstanding since we went on the NASDAQ in 2014. So minimizing or actually maybe even completely eliminating shareholder dilution in our business model has been a very, very significant focus of management energy. And it is a different approach than perhaps some of the other biofuels companies that have capital-intensive business models. But I think we've proven we can make it work.

And to now operate in our six years since we've been on NASDAQ, and to have roughly the same number of shares outstanding is quite unusual. I can't actually think of any other biofuels company that's achieved that, while achieving significant revenue growth that's now \$200 million.

Operator

Next, we'll take a question over the phones coming from the line of Tom Welch at Ameriprise.

Q: First question, I see that your EB-5 funding second round, you've now landed approximately \$4 million. Is that correct?

Eric McAfee - Founder, Chairman and CEO

That's correct. We funded about \$4 million last year. We're expanding the whole offering activity this year, though, because the rules changed in November of 2019 to strongly favor projects like ours.

Q: Can I ask what country primarily are you seeing the existing funding coming from the \$4 million?

Eric McAfee - Founder, Chairman and CEO

Today, the country is India. I would expect at least 70% of the investors in the program will be from India in 2020. Historically, China has comprised 85% of the program, but so many Chinese funded literally billions of dollars in the EB-5 job creation program, that's about a 15-year wait for a new Chinese investor to get a green card. So the Indians, we do not have that long wait period and are losing the H-1B work visas in the US. You may know that a little over one-third of H-1B work visas were rejected by the Trump administration starting in the year 2017, so these are sometimes families actually here that are running the risk of having to end up back in India after embedding an entire family in the US. So the Indian population is really the most attractive one.

Q: And it sounds like our relationship with India has jumped up a couple of notches at least with the most recent visit by President Trump.

Eric McAfee - Founder, Chairman and CEO

Yes, just a couple of notches. And Tom, something else that's interesting is that we have a 50 million gallon plant and 80 employees in India, headquarters in Hyderabad. And we find that these investors have as their #1 risk, they're half the world away, and they just don't have confidence that giving a lot of their money to some guy in California making big promises has any business behind it, right? So we're a NASDAQ-listed public company, but we have a physical facility that they go and visit in India. So we have a very, very unique, 14-year India presence that gives us credibility that is significantly different than any other developer I know in the US.

Q: Fantastic. One final question. I see that Minnesota has now proposed legislation changing the minimum blend rate from 10% to 15%. Essentially, all they've done is gone in with HF 3694, crossed out the 10% line from previous legislation and substituting the 15% mandatory blend rate. That's a heck of a change, to think that you can pull into any pump possibly in Minnesota of having a normal blend rate of 10%, seeing a 15% blend rate now on virtually all the pumps. And that looks like it's going to pass. So just pure speculation here, but I would be interested in your opinion on whether or not we could see similar legislation in California, New York and all of the other Corn Belt states?

Eric McAfee - Founder, Chairman and CEO

The answer is yes. The EPA did testing that was equivalent to 6x to the moon and back in terms of number of miles driven, showing that you could have a 20% blend, and that any vehicle that was younger than 2001, so it's manufactured in 2001 or later, that the requirements of the engine and fuel lines would allow you to actually run

20% ethanol. And they went to Congress in 2009 and said, we're going to approve 20% ethanol. And Congress at the time under pressure from the oil industry, said, "Oh, my gosh, we can't do that. We can't do that," and they approved 15%. Thereafter, the oil industry sued the EPA, and in 2012 that lawsuit was completed. And actually, since 2012, 15% has been approved by the EPA for any vehicle that's 2001 or younger.

Now we're almost a decade after 2012 now. So the percentage of cars that are older than 2001 has decreased significantly. And so states such as Nebraska, Minnesota, Wisconsin, Iowa, call them the corn states, have a tremendous amount of pressure to say, well, why aren't we at least at 15%? If 20% was approved by the Department of Energy, Congress approved E15 after it arm wrestled with the oil industry, why aren't we at least at the national standard of E15?

California is the only state in the country that's allowed to have its own fuel blend because we want cleaner air in California. And we won a Supreme Court judgment a couple of decades ago, allowing us to set our own rules. In California, E15 is in the final regulatory process and is slated in the next year to come up for approval. And if it is approved, we'll have cleaner air in California and lower cost fuel in California, and that would be a bellwether state. If you see California come up with E15, by the way, that represents about 700 million gallons of additional demand just in California. And so we're talking about going from a 15 billion gallon national market to over a 20 billion gallon national market, and these states are really leading the way, while the EPA kind of slogs along with some political factors that seem to confuse them.

But the states don't seem to be confused at all. And so I'm very encouraged by governors that are coming out and one governor, Nebraska, by the way, just completed a multiyear 30% ethanol test showed that the vehicles can actually run at 30% ethanol would burn even cleaner and lower cost fuel and is proposing a 30% not mandate, but an approval, so you can go to a pump, you can get E15, but also get E30 at the same pump. And that's going toward the Brazilian model, which gives the consumer a choice of the pump. And in Brazil, 55% of the fuel is biofuel, chosen by the consumer because they have the choice at the pump and what the blend is going to be. And that's really where we should end up in the United States.

Operator

We'll move next to the line of Massimo Fiorello [ph], private investor. Welcome, Massimo.

Q: Hello, Eric. It's nice to hear you.

Eric McAfee - Founder, Chairman and CEO

Hello, Massimo. I know that you run a hospital in Italy, so you must have some stories. Give me a call afterwards and let's talk about how Italy is doing. But it was good to see you recently and I'd love to hear what questions you have.

Q: Yes, here in Italy the situation is quite tough. I am again absorbed now with safety. And by the way, I just want to do my congratulation for your results. I really appreciate that you are doing very well since the percentage of nameplate capacity is 120%, which is something of amazing. I just read the slides. The main operator in the industry are like 90% in the best scenario, so operationally, you are doing very well. And I am also happy to see that in India the percentage of nameplate capacity is increasing because we are like 32%. So I think that the future will be bright for the company.

My only worry is in the short term because I am a bit worried because you are not compliant with NASDAQ listing since you are for now less than \$1. So my first question is to ask to you which action do you want to implement in order to get compliance with NASDAQ. Because for me, it's very important that you are listed in NASDAQ and

you need to be compliant until June. And if it is feasible according to you, to start and maybe to do like buyback or like acquisition in open market because it will be very useful to increase the share price, which is very low, and you can get like cash flow from India to finance the buyback or in the open market.

Eric McAfee - Founder, Chairman and CEO

Massimo, you're exactly correct that the stock price today reflects external factors that really contradicts the great progress we've made in our operations. A stock buyback has been adopted by a couple of other biofuels companies and it had a very positive impact on their stock price. A stock buyback right now would be very beneficial to shareholders because we're buying it back at a very, very low valuation with, as we heard from this call, literally, a matter of a couple of months we're seeing new revenue streams from biogas, et cetera, CO2. And so this would be a time window in which a stock buyback would be good for overall shareholders. And it definitely is an action item that I think we'll continue to pay attention to.

We are focused on completing our fundamental operational goals, and that's the first use of our capital is to get those built. But with such an inexpensive stock, it would be of great benefit to shareholders for us to go and take it away from some people that might be willing to sell at this price and have our remaining shareholders enjoy a much, much higher stock price. So I appreciate your interest in that. And I agree with you, that is definitely an area of focus for us over the next couple of months.

Q: Okay. Thanks a lot. So I really hope that the buyback program will start soon as the other company in the sector has done in the last month.

So I have another question for you about India. So about California, I mean your results are like amazing, according to my opinion, because operationally, you are probably the best ethanol plant in all the United States because no one in the market is running 120%. And I am also thrilled by what is going to do in the next months because all the projects that will go online will definitely improve cash flow, and you are doing quite well according to me.

I have only a question about India because I have here the number in front of me and that is that you run like 13% nameplate capacity in 2018. In 2019, you did very well because you passed from 13% to 32%, it is like more than double. And I want to ask to you what are like your forecast for 2020, if we can reach, I don't know, 40%, 50%, 60%, what is the medium scenario for the nameplate capacity in India?

Eric McAfee - Founder, Chairman and CEO

The tender from the oil marketing companies was actually issued earlier this week, and our capacity at the plant is about 50 million gallons, as we described. Their tender was for a little over 300 million gallons, which is slightly more than the entire production capacity available in the country. They're actually trying to encourage people to expand production capacity. So at this point in time, it's really negotiating price and terms, of course, always matter.

But we have the potential to double our revenues again in India, but it's completely subject to the input costs and this tender price that we're going to get on whether I can solidly say we're going to double revenues again. We did double revenues in 2018, '19, and we're planning to double revenues again this year. And I will know probably in the next 90 days on whether that is easily achieved or whether it takes a little more heavy lifting by selling more directly to the regional bus companies, et cetera. But our goal, certainly, is to double that 32% to 64% this year, and that would put us at a roughly \$80 million to \$100 million of revenues out of India. So expecting that goal to be largely achieved. In this scenario, where the government alone would take 100% of our

capacity, that would be \$150 million of revenues through the government alone. So we'll be able to, hopefully, in our next earnings call, talk about what came out of that purchase order from the customer.

Q: Perfect. So I want, again, to congratulate with you and all the team for the operational results that you got. I really think that in the next month, with new projects going online, the situation will definitely go again better. And please do the right consideration about what I told before because it's personal, it's only my concern. It's very, very important to believe now that you have like the line to reach \$1 valuation in June or July, I don't remember as of now. So I would really appreciate if in the next month, the company, the board of the company, I don't know how it works in the United States, will communicate to the market and start to buy shares in the market because valuation of \$30 million of all the company is ridiculous, according to my opinion. So I really hope that you will take this opportunity and do the buyback or buy share on the open market.

Eric McAfee - Founder, Chairman and CEO

Great. Thank you, Massimo. Talk to you soon.

Operator

Ladies and gentlemen, we do appreciate your questions and comments today. At this time, there are no further questions from our phone audience. So I'm pleased to turn the floor back to our leadership team for any additional or closing remarks.

Eric McAfee - Founder, Chairman and CEO

Thanks, Jim. I appreciate that. Thanks to our Aemetis shareholders, stock analysts and others for joining us today. We look forward to talking with you to continue our dialogue about the growth opportunities at Aemetis.

Todd Waltz – EVP and CFO

Thank you for attending today's Aemetis earnings conference call. Please visit the Investors section of the Aemetis website where we'll post a written version and an audio version of this Aemetis earnings review and business update. Jim?

Operator

Gentlemen, thank you for your remarks today. And to our phone audience, this does conclude today's teleconference, and you may disconnect your lines at this time. We hope you enjoy the rest of your day. Thank you all for joining us.