Transcript of
Aemetis, Inc.
Second Quarter 2020 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

Ed Woo – Ascendiant Capital
Marco Rodriguez – Stonegate Capital
Tom Welch – Ameriprise Financial
Massimo Fiorella – Private Investor

Presentation

Operator

Welcome to the Aemetis Second Quarter 2020 Earnings Review Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. As a reminder, today's call is being recorded.

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

Todd Waltz – Executive Vice President and Chief Financial Officer

Thank you, Melinda. Welcome to the Aemetis second quarter 2020 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 homepage.

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 activity and 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 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 June 30, 2020, which is also available on our website.

Adjusted EBITDA is defined as net income or loss, plus to the extent deductible in calculating such net income, interest expense, loss on extinguishment, income tax expense, tangible 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 second quarter 2020. Revenues were $47.8 million for the second quarter of 2020 compared to $50.6 million for the second quarter 2019, driven by the entry into the high-grade alcohol market, but slightly offset by the delay in the India government oil marketing company biodiesel bidding process.

Gross profit for the second quarter of 2020 rose to $14.1 million compared to a gross profit of $3.3 million during the second quarter 2019. The North America segment accounted for $13.9 million the reported consolidated gross profit.

Selling, general and administrative expenses administrative expenses were $4 million during the second quarter of 2020, compared to $3.9 million during the second quarter 2019. Operating income increased to $10 million during the second quarter 2020, compared to an operating loss of $762,000 for the second quarter 2019.

Interest expense during the second quarter 2020 was $6.2 million, excluding accretion in connection with the Series A preferred units in the Aemetis Biogas LLC subsidiary, compared to $6.6 million during the second quarter 2019. The Aemetis Biogas subsidiary recognized $1.4 million of accretion in connection with preference payments on its preferred stock.

Net income was $2.2 million for the second quarter of 2020 compared to a net loss of $13.9 million for the second quarter 2019. Adjusted EBITDA increased to $11.2 million for the three months ended June 30, 2020. Cash at the end of the second quarter 2020 increased to $3.4 million, compared to $600,000 at the end of 2019.

That completes our financial review for the second quarter 2020. 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

Thanks, Todd. Aemetis was founded in 2006. We have grown into four lines of business which are focused on supplying health products, including high grade alcohol, refined glycerin, blended hand sanitizer gel and liquid as well as packaged sanitizer products.

Renewable fuels, including low carbon and below zero carbon ethanol, biodiesel, waste wood, ethanol and byproducts, including carbon dioxide and corn oil; dairy biogas, including, renewable natural gas for transportation fuel and technology development to maximize the value of our products and processes.

We own and operate production facilities with more than 110 million gallons per year of capacity in the US and India. Included in our production portfolio is a 65 million gallon per year high grade alcohol, fuel ethanol, distillers' grain and corn oil plant located in Keyes, California near Modesto.

We also build, own and operate a 50 million gallon per year capacity, refined glycerin and distilled biodiesel – biorefinery on the east coast of India near the port city of Kakinada. Aemetis made positive progress toward increasing revenues and sustained profitability in each of our four businesses during the second quarter of 2020.

Let’s review our new Aemetis Health Products business which grew rapidly during the second quarter, as well as our fuel ethanol business which earns strong profit margins during the end of the second quarter.

In response to a national shortage of hand sanitizer used to slow the spread of the of the COVID-19 virus. In late March 2020, the FDA and the Treasury Department’s TTB agency issued temporary regulations, allowing fuel ethanol plants to produce alcohol for hand sanitizer.

Responding to this approval and the spike in demand for sanitizer products, Aemetis delivered our first sanitizer alcohol within a few days~~,~~ thereafter through a post processing arrangement that was formed with a local wine and spirits producer. Then installed upgrades at our California plant to produce higher quality ethanol for broader personal care and industrial markets.

Very quickly, we realized that a major differentiator between our company and other ethanol producers is that they would have to transport alcohol for sanitizer from the Midwest to California, using fuel ethanol trailers and rail cars, which are often contaminated with benzene and other dangerous chemicals from the gasoline that is used as the denaturant in fuel ethanol.

We quickly arranged a $2.1 million lease purchase of 15 new bulk trailers with our trucking company to be used solely for the transport of Aemetis high grade alcohol, allowing us to deliver up to 30 loads per day of alcohol to California blenders and bottlers from our Central Valley plant, without using any trailers that carried fuel ethanol or gasoline.

In addition to using new bulk trailers, our California high grade alcohol plant location is about 2,000 miles closer to customers in California. Aemetis has a permanent cost advantage over Midwest ethanol producers due to our close proximity to Western US markets, especially when government agencies restrict the use of rail cars and tanker trucks that have previously carried petroleum products.

As you may know, high quality alcohol and refined glycerin are the two key ingredients in hand sanitizer and other sanitizer products. During Q2, we began shipping large quantities of hand sanitizer alcohol from our plant in California and refined glycerin from our plant in India into the rapidly growing sanitizer and personal care markets.

To expand our product line and support a growing list of customers in the US and Canada, we recently launched the Aemetis Health Products subsidiary to manage the development, production and marketing of our sanitizer products.

After implementing a number of upgrades at the California ethanol plant, we believe that Aemetis now operates the largest production plant for high quality sanitizer alcohol in the western US, while also owning and operating one of the largest Pharmacopeia grade refined glycerin production plants in Asia.

The global COVID-19 crisis that began during Q1 2020 and caused operational shutdowns for many businesses during Q2 2020 also provided challenges to our business. Protecting the health of our employees, while continuing to operate our California ethanol plant to supply animal feed to more than 100,000 dairy cows occurred during a time period in which the demand for peak biofuels decreased significantly due to the steep decline in gasoline consumption during shelter-in-place orders.

However, Aemetis operates in three of the Federal essential critical infrastructures, and continue during both Q1 and Q2 to operate our California ethanol plant in order to provide transportation fuel and alcohol for sanitizer products, while continuing the construction of plant upgrades, and building our dairy renewable natural gas project without interruption.

To a large extent, the ability to continue to operate our California plant while fuel ethanol demand and price declined significantly during Q1 was due to our rapid conversion of ethanol production to produce hand sanitizer alcohol, followed by a late Q2 strong recovery in the price of fuel ethanol.

In April, Aemetis received the Distilled Spirits Producer, DSP permit from the TTB. With the DSP permit, Aemetis can sell high grade alcohol into other markets. In June, we began to produce Food Chemical Codex (known as FCC) food grade quality alcohol at our Modesto plant.

We began shipments of FCC grade alcohol to Canada during Q2, and we continue to invest in the upgrading of our production facilities that we believe will allow us to achieve US Pharmacopeia grade alcohol in Q1 2021.

Our total investment in upgrades for the production and storage of high grade USP alcohol is expected to be approximately $15 million, of which, more than $12 million has already been funded or will be reimbursed by grant funding.

Our expanding production of high-quality alcohol for the sanitizer market used for hand sanitizer, alcohol wipes and alcohol sprays is expected to be a long-term growth market driven by the adoption of antiviral products by governments, schools, private industry and consumers.

To increase the value of our high grade and fuel ethanol and to reduce the cost of operation of our production plant, we are currently implementing several upgrade projects related to the California plant, including:

Number one, building 2 new distillation columns and related systems to produce high purity US Pharmacopoeia grade alcohol for sanitizers known as USP grade.

Number two, installing 5 new segregated stainless-steel tanks for USP high grade alcohol storage and loadout, increasing our storage capacity by more than 250,000 gallons.

Number three, completing the installation of the new $7 million zeolite membrane dehydration unit from Mitsubishi to reduce natural gas use at the alcohol plant, by replacing our molecular sieves with electrically powered equipment, which will reduce the carbon intensity of our fuel ethanol and is partially funded by a $1.5 million energy efficiency grant.

Number four, adding high efficiency heat exchangers to reduce natural gas use at the alcohol plant reimbursed by a $1.3 million energy efficiency grant.

Number five, installing a solar panel micro grid array with battery backup, and an artificial intelligence energy management system to replace natural gas with solar electricity, while optimizing energy use throughout the alcohol plant, primarily funded by an $8 million California Energy Commission grant.

Number six, designing and building a mechanical vapor recompression or known as MVR system to significantly reduce petroleum natural gas use, partially funded by a $6 million California Energy Commission grant.

Number seven, constructing a dairy biogas digester cluster and pipeline to deliver renewable natural gas to the alcohol plant from an initial 2 dairies this year, with plant expansion to an additional 15 dairies next year, along with an interconnection to the utility gas pipeline. This project is planned to generate approximately $25 million per year of operating cash flow and is being primarily funded with $55 million of automatically redeemed preferred equity issued by the Aemetis Biogas subsidiary.

When completed, these upgrades are designed to eliminate nearly 100% of the petroleum natural gas use at the alcohol plant, saving up to $7 million per year of natural gas, and pipeline cost, replaced by carbon negative dairy biogas to provide the gas required to generate steam for use at the plant.

The bio refinery will primarily operate using high efficiency electric motors and pumps, powered by solar energy and renewable power sources, optimized by the AI system provides insights to the energy use of each of the systems in the alcohol plant.

As a review of the milestones achieved in Q2, in early May, we announced the completion of construction and commencement of – commercial shipments of carbon dioxide to the newly constructed Messer CO2 gas plant that was built next to our ethanol plant to capture and reuse carbon dioxide.

After three years of project development and contract negotiations, Messer leased about five acres owned by Aemetis adjacent to the Keyes ethanol plant, to build a CO2 liquefaction plant. We are now converting approximately 150,000 tons per year of renewable CO2 produced by our ethanol plant into liquid CO2 for sale to local food and beverage producers and other CO2 industrial users.

Ethanol plants produce about 40% of the CO2 in the US and the significant national shortage of CO2 occurred due to the COVID related shutdown or idling of ethanol plants. 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 initially worth about $4 million per year and grows to $6 million per year over the next five years under the IRS 45Q rules.

The construction of the $7 million membrane dehydration system financed by Mitsubishi Chemical, Japan and a $1.5 million energy efficiency grant is currently in the installation process, but was significantly delayed by the COVID-19 crisis due to travel restrictions and local contractors stopping work under shelter-in-place orders.

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.

These projects at the Keyes plant are targeted to significantly 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 potential combined impact of these projects is expected to be an approximately $30 million increase in operating cash flow each year at the Keyes plant, not including any improvement in profit margins that are expected from high grade alcohol products.

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 30 times more powerful than carbon dioxide at capturing Earth's heat. About 25% of California's methane emissions come 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 a significant reduction in methane emitted by dairy lagoons.

Bio methane source from dairies can be used to replace gasoline or diesel fuel in cars, trucks and buses to significantly reduce carbon emissions and air pollution. Along with the state mandate, California is funded up to $75 million per year of 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 transportation fuel is an excellent way to reduce climate change, create value for dairies and reduce costs for diesel truck fleets and potentially for electric vehicles by conversion of dairy renewable natural gas to electricity for transportation use.

Based on our existing animal feed supply relationships with about 100 dairies, and the ability to use biogas in our plant until our planned pipeline or connection completion in the first quarter of 2021. We believe that Aemetis is uniquely positioned as one of only two ethanol companies in California who are using existing infrastructure in this manner.

After more than a year of project development and financing work, last year 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 $3 million to build biogas digesters of the first two dairies in our biogas project.

Construction of the first two dairy digesters, the four-mile pipeline and a boiler unit at the Keyes plant is nearly completed and will be commissioned in the next month. We expect to begin the renewable natural gas revenues during September 2020.

We also signed 17 total agreements with dairies and plan to complete construction of the next 15 lagoon digesters by the end of year 2021 subject to potential COVID-19 delays. Aemetis owns the 100% of the common stock of the Aemetis Biogas subsidiary.

The dairy biogas project has been funded by a preferred stock issuance by the Aemetis Biogas subsidiary to a fund managed by Third Eye Capital, which we expect to expand to $55 million of funding, along with grants from state and federal programs. There is no dilution to Aemetis parent company shareholders for the biogas project and Aemetis receives 25% of the cash generated by biogas project operations.

The preferred stock is automatically repurchased at 3 times original issuance price using 75% of biogas operating cash flow. After the preferred stock is redeemed, Aemetis as a sole common shareholder will own 100% of the cash flow and assets of the biogas digester and pipeline system.

Let's review biodiesel business in India.

After two years of investment in construction, we completed the upgrade of our India plant in 2018, including installation of a pretreatment unit to process lower cost and waste feedstock into oil. The biodiesel refined glycerin plant is fully commissioned 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.

The shelter-in-place order in India has restricted our production, but we continue to ship biodiesel and refining glycerin from inventory. In June, we began production at the India plant to meet expanding biodiesel and refined glycerin needs in India.

Though the global price of diesel has declined along with the price of crude oil, the domestic price of diesel in India has remained largely unchanged due to the increased India government taxes that offset crude oil price declines. Since our biodiesel is sold at a price linked to India domestic diesel prices, our biodiesel prices in India have remained steady, despite the significant decrease in the price of crude oil.

In addition, refined glycerin prices having increased in response to the need for hand sanitizer and other consumer products. In May of last year, we announced that our Universal Biofuels India subsidiary was awarded a $23 million biodiesel supply contract with the 3 India government owned oil marketing companies in a public tender process.

The year 2020 India oil marketing company purchase requestst for biodiesel were issued and the negotiation of word of supply agreements should occur in the next month. We expect to continue to participate as a key supplier under these biodiesel contracts.

Let's finish with an update on our below zero carbon cellulosic ethanol project in Riverbank, California.

We were pleased that Aemetis Advanced Biorefinery under development in the 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 publication.

The Aemetis project earned its number one ranking as a result of our fixed price, low cost almond and walnut wood waste contract, planned production of high value cellulosic ethanol, as well as valuable fishmeal and other byproducts, using the patented LanzaTech gas microbe ethanol production technology. The LanzaTech technology is now in full commercial operation at a plant opened in 2018 in Northern China, that converts waste gases from a steel plant to produce ethanol.

During 2019, we announced 3 significant financings related to the Riverbank project, a $5 million California Energy Commission grant to fund engineering equipment, a $12.5 million tax waiver that offsets equity funding required for the project, and the signing of $125 million USDA Conditional Commitment Letter for a 20-year debt financing under the 9003 Biorefinery Program. We are working to update the USDA loan to match the current capital expenditure budget for the project.

We're also focused on completing the 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 each year and more than $50 million per year of positive cash flow by producing cellulosic ethanol from low cost waste orchard, vineyard, forest and construction/demolition wood as feedstock.

The financial closing that begins construction of the Riverbank plant is dependent on completing the engineering and procurement work required for the signing of the construction contracts. We are now in the final engineering and preparing for the procurement cycle prior to the completion of project financing and commencement of construction of the plant.

Let's wrap up with a quick review of the key milestone achieved by our Technology Development group.

Our Technology Development team worked with the federally funded Joint Bioenergy Institute in Berkeley, California for three years in the development of processes to use low cost waste orchard and forest wood feedstocks to produce high value cellulosic biofuels.

A $3 million California Energy Commission grant was awarded to JBEI and Aemetis which partially funded years of collaborative work in lab testing with Aemetis and JBEI that in Q2 2020 resulted in the production of the first carbon negative fuel ethanol from California orchard wood using ionic liquids. This patent pending process allows the sugar component of low-cost waste wood to be used to produce both high grade alcohol as well as cellulosic fuel ethanol that are each currently valued at more than $5 per gallon.

Importantly, this innovation could be implemented at our existing California ethanol plant, decreasing the cost of corn feedstock and substantially increasing the value of our alcohol. We expect to move forward with a pilot plant to extract sugar from waste wood, and thereby enable the production of high margin, high grade alcohol and cellulosic ethanol at the Keyes plant by displacing corn feedstock.

In summary…

We believe that Aemetis hold a unique position with the production of both high-grade ethanol and refined glycerin from our India operation for the rapidly expanding sanitizer market.

Aemetis has a geographic and strategic advantage in sanitizer alcohol production, with lower cost and higher quality delivery to customers, a diversified production of low carbon renewable fuels in two attractive markets in California and India, the $6 million of positive cash flow and a 120% revenue growth that our India plant during 2019, which was achieved while repaying 100% of our long-term debt in the India subsidiary, while 2020 revenues from the government contract did not even occur yet due to the COVID-19 delays.

The increased profit margins from plant upgrades related to the Keyes biorefinery began in Q2 2020. The Aemetis Biogas dairy digester and pipeline project is expected to begin first gas production in September 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 high-grade sanitizer alcohol, as well as 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. Operator?

Question-and-Answer Session

<u>Operator</u>
Thank you, Mr. – I apologize. Thank you, Mr. McAfee. We will now be conducting our question-and-answer session. [Operator Instructions] And first we go to Ed Woo with Ascendiant Capital. Please go ahead, sir.

Q: Yeah, congratulations on the quarter. Obviously, you know, it was a very, you know, special quarter in terms of the high demand for, you know, any type of professional – protection type devices including hand sanitizers, how sustainable do you think that’s going to be you know, heading into the back half of this year and possibly into next year?

<u>Eric McAfee – Founder, Chairman and Chief Executive Officer</u>

As we launched Aemetis Health Products, it was a strategic decision to expand our exposure to the sanitizer alcohol market by not only selling bulk alcohol, but also selling blended liquid and gel products which have additional margin because of the value-added component there. And also the launch package, which basically in this case is mostly bottled products under both other company’s names as well as our own. And we’re anticipating the second half of this year is going to become more of a stable operating environment rather than the spike in demand that we experienced in Q2.

But we’re also seeing a significant reduction in competitor products. There’s over 100 products that have been recalled or basically been taken out of the market by the FDA and the Health Canada regulations. A lot of that was product from Mexico containing methanol, but also products that contained high levels of acetaldehyde, which is a cancer causing components that can be found down in fuel ethanol.

And also this restriction on the transportation of high-grade ethanol that you can't haul it around in fuel ethanol tanks is a significant constraint. And as those rules are actually more and more enforced, I think we're going to find that there's fewer suppliers in the market. So the second half of 2020 is going to be a market rationalization phase.

What we're seeing is continued substantial demand, we have direct relationships with very large customers and retailers and there is a sustained demand for high grade alcohol that is occurring and you'll see other suppliers of high grade alcohol are announcing long-term contracts they put in place and many of them are actually sold out for this current year.

And so it's definitely an opportunity for us to continue to upgrade process and complete the construction of our USP grade facility, that'll make us roughly a 5 million gallon per month supplier and be very uniquely positioned as the, certainly the largest capacity supplier in the Western United States by a long shot.

I mean, there the number two is really going to be non-consequential to us. So we see the solidifying of that strategic position over the next six months and certainly going to market with these higher margin generating products is going to be an expansion that we'll see over the course of Q3 and Q4.

Q: Great. What percentage of your ethanol output is for the hand sanitizer market today?

<u>Eric McAfee – Founder, Chairman and Chief Executive Officer</u>

It is a volatile business. So it is expanding. And we're anticipating that as we supply into our own Aemetis Health Products subsidiary, we will see better visibility in terms of what the total volumes are over time, especially since some of the contracts are bidding on federal government kind of contracts tend to be longer and more stable.

And so at the current time, we're seeing an opportunity to expand our commitment there. But we are continuing to ship fuel ethanol until we get our own packaged products in the marketplace at which time it's very possible that our fuel ethanol production capacity is going to be curtailed significantly. I could anticipate a time which we would not have any fuel ethanol production capacity at all.

Now, whether that occurs in the next six months, occurs in the next 18 months, I'm not quite sure. But we'll certainly be positioned for that from a technology perspective, because our upgrades are being implemented to convert all 5 million gallons per month to this USP high grade alcohol.

Q: Just you know, to clarify my understanding. So, once you start converting it to these, you know, high quality ethanol for other uses, can you still produce fuel ethanol? Or is it you know, once you make the shift, you cannot do it anymore?

<u>Eric McAfee – Founder, Chairman and Chief Executive Officer</u>

We will still be able to produce fuel ethanol.

Q: Great. Well, you know, that's all the questions I have. You know, definitely congratulations on the quarter again. Thank you.

Eric McAfee – Founder, Chairman and Chief Executive Officer

Thank you, Ed.

Operator

Next, we go to the line of Marco Rodriguez with Stonegate Capital. Please go ahead.

Q: Good afternoon. Thank you for taking my questions. I was wondering if you can maybe talk a little bit about the margin profile or the high-grade alcohol that kind of looks like just looking at your numbers that it might be somewhere in the 60% plus range. Can you give us a sense of that, if that's correct, and then also whether or not that's kind of a normalized run rate for the margin?

Eric McAfee – Founder, Chairman and Chief Executive Officer

We have a couple different entry points in the market. We have a bulk alcohol business, we have a blended gel and liquid alcohol business and then we have our packaged alcohol business. And what you'll see in industry, is the bulk alcohol business ranges from low numbers to moderate numbers.

So it's going to be somewhere in the 20% to 50% range in the bulk alcohol business. In the gel and liquid business, largely the same range again, depends on volume 20% to 50% probably would be accurate, and then in packaged products, because we happened to be the supplier of in the liquid sanitizer, basically 98% of what cost any money inside the bottle is it comes from our plant, the margins are usually in excess of 50%. So largely determined by volume. The smaller volume customers tend to be the higher margin customers and the inverse of course with the larger volume customers.

Q: Great. And then also you mentioned obviously, you have a competitive advantage versus a lot of other high-grade alcohol producers, given your location from a shipping aspect. Can you give us a sense as far as who are the, I guess, the competitors pre-COVID that were in the market kind of supplying this?

Eric McAfee – Founder, Chairman and Chief Executive Officer

In general, Pacific Ethanol Pekin, Illinois plant was a major producer. We also have MGP in the Midwest that's played a significant role. There are some other players in the market that are not disclosing their level of participation, but ADM and a couple of the other traditional ethanol players have some USP production.

But there will probably be another, I'm going guess, a half a dozen ethanol producers that during the course of 2020 will make the substantial investment of both money and as well as time to upgrade the USP. So there was an estimate about 6 players were in the market in January, and will probably exit the year with probably 9 or 10 players and then by early next year also probably a dozen players.

And of those dozen players, one will be west of Iowa and all the other 10 or 11 are in the upper Midwest, Minnesota level down to Kansas. So there's really no ethanol plants in

Texas. It's really not much going on the southeast. And out in the US, Western US, it's basically it's basically us as the only announced hand sanitizer producer. So it's going to be largely up Upper Midwest, Iowa, Minnesota and Illinois kind of a location which is 2,000 miles away from the Western United States.

Q: Got it, thanks a lot. I really appreciate the time.

Eric McAfee – Founder, Chairman and Chief Executive Officer

Sure, thank you.

Operator

Our next question or comment comes from the line of private investor, Tom Welch. Please go ahead.

Q: Thank you. Hey, Eric. I was wondering if you can provide some color on your time horizon for finishing some of the projects you mentioned the distillation column, the ZEBREX membrane, the heat exchanger, solar panel microgrid, vapor recompression system?

Eric McAfee – Founder, Chairman and Chief Executive Officer

We would categorize those in two categories. One is the systems required for USP production and those are all structured to be completed by Q1 of 2021. So we would be able to ship the higher-grade alcohols into these markets in that timeframe.

The solar array power system and the MVR, which is essentially changing the use of steam, so we reuse it, therefore don't have to produce as much. Those projects are stretched out over the next year into the third and fourth quarter of next year for solar. It seems like with some of the changes in market, the solar guys might be able to work a lot quicker because of a lack of other projects that used to be the line of thing.

So we'll probably see the solar project relatively quickly. And then the MVR project would be taking us into probably 2022 for completion, it is a change in using our renewable natural gas that is remarkable and it is a very strong financial impact of the company. But the design and engineering phase is going to take most the rest of this year.

So 2021 will be a construction year. And I currently would expect to be 2022 we'll get the MVR installed, though that might be accelerated again because some of the other construction contracts have slowed down. And us moving forward has got a lot more intention from the contractors and engineers than we otherwise were getting.

Q: All right, very good. In regards to the engineering on the cellulosic ethanol plant. I know you've been working hard on that engineering for, gosh, more than two years now. I'm sure you're looking for that end in sight moment? Do you have a target date for finishing the engineering plan and submitting them to the US Department of Agriculture?

Eric McAfee – Founder, Chairman and Chief Executive Officer

Yes, much of our engineering is around permitting. So, in order to close our project financing, we need what's known as an authority to construct permit. It's from the air board. And so much of our engineering is simply responding to the air board's let's call it process of reviewing emissions, et cetera. And in California we have what's called CEQA, the California Environmental Quality Act, which has to be completed before they issue the authority construct.

So, we are working through the last steps of that CEQA and air permitting process. And so when I say engineering, it's not necessarily just a bunch of guys sitting around and saying, you know, here's what we're going to design.

It's more stringent than that, it's really a very active process with a group of consultants on these permitting issues, which you've probably heard California is pretty strict about these things. We're essentially building an oil refinery. And so, to get to the point in which we're almost getting approval for the authority construct, literally in the next quarter, I would expect we could get that approved is quite a remarkable achievement.

As soon as that's achieved, we can then close up our EPC agreement and complete the project financing. So, we're currently anticipating project financing as Q1 of next year. And all these plants can be impacted by new orders for shutdown or you know, stay-at-home orders or something like that. But in general, our current process would enable a financing close in Q1 of 2021.

Q: Okay. Can you add some more color to your financing plan for the cellulosic ethanol plant? I know you've talked about the US Department of Agriculture, potentially it's an EB-5. But you also, in your Q1 conference call, I think you mentioned something about a municipal bond.

Eric McAfee – Founder, Chairman and Chief Executive Officer

Thank you for listening to Q1 actually. I was wondering whether everybody actually heard that. That there are two venues for us to receive 20-year bond financing. One is our Commitment Letter that's already signed with the US Department of Agriculture. That provides 80% of project financing.

Aemetis has largely funded~~,~~ the other 20% or received grants for the balance. So, we're well positioned to move forward and close that. The amount of that USDA financing will be adjusted depending on the final EPC contract the one that has the maximum price construction will go back to one more cycle of USDA.

Parallel to that though, there have been couple of projects that have been funded by municipal bond tax free refinancing that have successfully raised substantial amount of funding, several hundred million dollars per project. And so, we are working with investment bankers and engage council and are well on the process of closing a municipal bond financing that is attractive because of the lower cost obtained through a tax refinancing and it's a fixed interest rate.

So, if the municipal bond market is available to us, it kind of runs hot and cold and as you can imagine with the current confusion in the market; it's going through bit of a transition.

But if it is opened, we would expect to move forward the municipal bond financing which is a substantial decrease in interest costs over the life of the project.

So, we are foreseeing with both of them having essentially already a commitment from the US Department of Ag. It gives us an opportunity to focus on this bond market and if it doesn't work then we can just close with USDA.

Q: Very good. One final question. I'm seeing a record number of companies that are using alternate means of being able to do consulting, typically like using smart glasses. Where you don't appear with smart glasses in California, the engineers from ZEBREX out in the Midwest don't appear with smart glasses and you don't even have to travel to California; they got within sort of five years in hand that are basically virtual reality link. And we see that's going on a lot around the world now with all the restrictions on flight to travel. Have you guys explored that at all?

Eric McAfee – Founder, Chairman and Chief Executive Officer

The smart glasses that we use is called iPhone Facetime and so I do think that you'll correct in that remote distance communication and collaboration is definitely a rapidly growing segment and running a production plant in which people can't communicate face to face as you can imagine is a bit of a transition for even our company. I think we've adopted well because we were already global company and already had the discipline in place for how we collaborate across time zones et cetera, but certainly tools that can allow people to essentially participate as if they were there, we'll see a growing application in industry.

Q: I've been watching a company that makes virtual reality glasses, smart glasses for business called Vuzix and their business has literally gone to the roof in the last six months as you can imagine. So –

Eric McAfee – Founder, Chairman and Chief Executive Officer

Yeah, I can. Thank you, Tom. Appreciate your questions. Thank you very much.

Q: Well that yeah. Thank you.

Eric McAfee – Founder, Chairman and Chief Executive Officer

Thank you.

Operator

Next, we go to the line of Massimo Fiorella, private investor. Please go ahead.

Q: Hello, so first of all, I want to give my compliments for your results. I was really impressed from the time you ran at 100% nameplate capacity and like your are compare, you're more or less a 50%, 60%. So I am very glad after all good to see that operationally you are doing very well and as it was pointed out before, you are like the only player in all over the United States it's like the richest part of the world with an 100 million people that are producing over there i.e., alcohol and hand sanitizer. So, I am really glad about the future of the company. I have some questions that I want to further it. I want to ask, is it possible to you know if you provide like good answer from second half of 2020 about EBITDA and the production?

Eric McAfee – Founder, Chairman and Chief Executive Officer

We do anticipate that our production rates which you correctly pointed out are very high, especially being in the Western United States, we're probably the highest production rate of any plant by a large margin. I do not have an EBITDA projection for the third and fourth quarter, I know that Pacific Ethanol announced a range of EBITDA that was very strong for the second half of 2020.

And they're obviously in a similar business plant as us which is expanding production of high-grade alcohol. They are already a USP producer, we are producing a high-grade alcohol, but we'll not be at the USP grade until early next year. So we see this as a transition period in which us obtaining higher margins through value-added products such as blended gel, which is at very, very high demand right now, and branded, packaged products enable us to obtain much the margin that otherwise might be obtained by doing USP.

So over the next couple of quarters we'll see these as transition growth quarters for us and then I wouldn't be surprised at all to see long-term contracts to be announced as we get into the first quarter and the first quarter end up with these basically in the similar position as Pacific Ethanol.

Q: Okay. Thanks a lot. I want to know another question. So, I listened that you forecast like per dollar of revenue of biogas in September 2020, is it correct?

Eric McAfee – Founder, Chairman and Chief Executive Officer

I'm sorry how much? I didn't hear that.

Q: I heard that you spoke about biogas revenue and you told that you think to get the first dollar of revenue in September 2020, correct?

Eric McAfee – Founder, Chairman and Chief Executive Officer

Yeah, yeah, it's correct, biogas project is being commissioned and we'll start generating revenue next month.

Q: Perfect. And what about Mitsubishi ZEBREX? What is the forecast the first savings about this project?

Eric McAfee – Founder, Chairman and Chief Executive Officer

We would anticipate that would start to impact Q4 revenues. We are currently being restricted by some of the international travel restrictions that frankly impacting our ability finishing the project and so over the next couple of months we expect to get that [technical difficulty].

Q: Perfect. Then like my biggest worry is about the company like three months ago in the last quarter was they're not definitely seeing but I see them now we are a lot higher than $1 dollar so it is not any issue anymore. And it was about the AI cost that has made this company, because you are getting some day past above the 15% interest rate.

So I would like to know what are the actions that you are going to do about decreasing this high cost debt, if you know, if you think to have in the next quarter high cash flow so if you have high cash flow you can pay back the debt. [technical difficulty] more EBITDA versus an investment to the company. So you get [technical difficulty] but you can pay back and I know that what you think to do about high cost debt?

Eric McAfee – Founder, Chairman and Chief Executive Officer

We have already raised $39 million of EB-5 funding which is approximately 1% interest rate and we, I believe announced that we received a national interest expedite which is an unusual identification that our project is strategic to the government in the United States, and that national interest expedite allows our EB-5 investors to have their applications reviewed and adjudicated in a three to six month time period that of approximately a 3 to 5 year time period for all other projects.

And so, we've seen in substantial increase and the number of interested investors and are proceeding forward and expect the cash deposits to occur this quarter. And the total number of investors that our job studies shows that we could have is a total of 200 investors, the average amount or is not average, so the amount per investor is $900,000 per investor. So, as we proceed forward, we have a substantial fundraising opportunity with 200 investors at $900,000 per investor. We've already closed data investors that occurred in 2019 and we anticipate to close a large number more as we continue forward for the marketing process.

Q: Okay. And I have the last two questions. The first one, one of the reasons because I invested in Aemetis and like Biofuel and Sanjeev is the [indiscernible] internal sectors is because first of all, I believe in you and on the management team and I am very glad about this amazing result. The second one is what has incurred that like what happened in electric cars market that are like some company in the electric car company in electric cars market that are like huge evaluation, because like the US government is supporting like electric cars.

So, if there is like one thing that US government has to support those ethanol, biofuel and certainly there is the price of green plants that made Pacific Ethanol goes to the moon. I am not – I don't live in United States but I heard that are like some laws that are in progress like zero tax and feedstock reimbursement and probably there is also something more from the California state. So, I wanted to know last your view about these possible incentives that maybe will be given to their sector?

Eric McAfee – Founder, Chairman and Chief Executive Officer

That's a very good question actually and if you have the answer, please email me after the call. The reality is that no one really knows yet what the incentives are going to be for ethanol in the United States. There is a proposal for our $0.45 per gallon funding that comes from the United States Department of Ag. It is not passed through congress yet, but would probably be an item that will be included in this current COVID-19 economic recovery package.

But I wouldn't say with the high degree of confidence that's going to occur. Since our plant produced approximately 5 million gallons per month throughout this entire cycle, $0.45 per gallon for let’s say a three-month period would be a significant amount of money. We’ll be targeting $7 million or $8 million or so of funding programs such as that.

Separately probably more relevance to our underlying business is investment of the renewable fuel standard and not granting waivers to oil companies especially highly profitable companies who do not comply with biofuel blending. And that is pending right now at the EPA, and I would expect between now and the end of the year, we’ll see some developments in terms of whether the US federal government enforces the Kimball Field standards.

By enforcing RFS, we end up with a fundamental market access that we don’t have. So, refiners are allowed to just continue using gasoline and not blending biofuels. And essentially, in California, for example, we have an 90% mandate for petroleum, which in the inverse means a 10% ethanol blend, and on national basis, E-15 approved if we can see an enforcement of the Renewable Fuel Standard will see a growing market, which we have not seen literally for five years due to this [indiscernible] federally waivers enforced.

So, I see it is not really cash funding that the ethanol industry deserves, I think we just deserve market access. We need reserve wonder pumps that allow consumers to decide whether they want lower cost domestically produced renewable low carbon fuel or whether they want to use imported high cost, high carbon, including material from some foreign entity and that choice is currently be made by government by blocking the use of biofuels in United States and not using well pumps.

Q: Perfect. Then if it’s possible I have a question about India. So, as it was pointed out before, like there are only 4 ethanol plant in all California, this is like a state with 40 million people. There is one from you too from pacific ethanol and one from Calgary. And only you are producing hand sanitizer, so like the margins are huge because you are the only one over there.

I want you to know, in India, India is a huge market, because over there probably more than 1 billion people, why don’t you do the same thing that you did in United States also in India and you start to produce also very high alcohol quality for hand sanitizer, because over there the market is huge.

<u>Eric McAfee – Founder, Chairman and Chief Executive Officer</u>

The India market is an export market opportunity for us and because we are probably the largest biodiesel producer in the country, and certainly easily one of the largest refined glycerin producers we have very good market access to India. Currently, the netbacks to our plant from exporting to India are not as attractive as selling our high-grade ethanol right here in California.

But certainly, I agree with you. There's multiple markets that have high margins for a USP grade sanitizer alcohol and the export markets are very attractive. But we have to be in probably the most attractive sanitizer market in the world right here in California and we have this leading suppliers so that’s what we’re focusing our efforts.

Q: Perfect. Then the last one. So another thing that I was really impressed that you like to sell the ethanol of like the $2.6 per gallon, your competitor also the ethanol more or less at 30%, 40% less because they are around through 1 [point] [ph] dollar it was very good for me because it means that you sold [technical difficulty].

Just to understand that in July and August, do you project to sell more or less the same quantity that by June do you think to be stable? Do you think that the July or August will increase also because you ever done a subsidies of the company in order to sell this product? Do you think to sell less in May-June what is like the frame for July or August compared to May-June because as you mentioned before you didn't provide the answer I said those are other company but just to understand it more or less the number of gallons sold are the same so I can do some math on my own.

Eric McAfee – Founder, Chairman and Chief Executive Officer

The spring of 2020 have a very large spike in demand. April-May, which were two of the three months of 2020 allowed our company participate in [ASCO] [ph] in March, we were not allowed to participate in making hand sanitizer until the 27th of March at which time the rules changed. So we really had only about two months out of the second quarter – I mean, sorry in that in the spring only had two months really April and May, in which the rules were very lax.

Starting June 1, the FDA set out standards for high grade ethanol alcohol, which substantially reduced the number of suppliers that can supply into the industry. And we mentioned that we started food graded alcohol shipments in the month of June to Canada, as well as to customers in the US.

And so we see a transition happening, in which, we'll be producing more value-added products such as blended gels and liquids, shift in totes, rather than bulk alcohol. And we see a longer-term contracts. One is a very large contract we're participating in that is a government agency. So this is a transition period of which we see longer-term commitments and certainly a lot of competitors can't believe the industry, all, basically all the Mexican competitors have left the industry and that to participate in this big run up in the second quarter. So we like Pacific Ethanol, we see longer-term arrangements being sort of more common and fewer suppliers that can meet the need.

Q: Okay, thanks a lot.

Eric McAfee – Founder, Chairman and Chief Executive Officer

Thank you, Massimo.

Q: I have told all the questions.

Eric McAfee – Founder, Chairman and Chief Executive Officer

Thank you, Massimo.

Operator

Next, we go to Ed Woo with Ascendiant Capital.

Q: Yeah, thank you for taking my follow-up questions. Going back to the economics of hand you know, sanitizer ethanol versus fuel ethanol. What's the price differential that you could get, you know, per gallon?

Eric McAfee – Founder, Chairman and Chief Executive Officer

Fuel ethanol versus sanitizer alcohol price differential. Is that what you asked?

Q: Yes, yes.

Eric McAfee – Founder, Chairman and Chief Executive Officer

Price differential between the two ranges from $3 to $8 per gallon. Yeah, probably $9 per gallon, actually, $3 to $9 per gallon.

Q: Great. Then going back to the you know, I know you mentioned that biogas, I guess the plant will be starting up in September. Do you think it'll be a major contributor to 2020 results?

Eric McAfee – Founder, Chairman and Chief Executive Officer

I wouldn't say a major contributor, no. It will definitely, I think for institutional investors provide good visibility into what 2021 and future years look like. It's a pipeline business, where you're clipping coupons there's really no cost of goods, right. The gas comes for free out of the lagoon, and there's a little bit of electricity involved with processing, but largely the cost of operations are nominal. And cost of labor is virtually nothing because there's no real manual labor involved with it. It's a little bit of maintenance support.

And so it's a very, very high margin business. It's an 80% plus margin business and a recurring cash stream that goes on for 20 years. These are 20-year contracts. So I think the discussions we're going to have with investors will be around the amount of visibility they have on these 20-year contract relationships with very low cost and very low uncertainty around operating components.

So I think we'll get a valuation from that project that'll I think, be very, very substantial. So we've signed 17 dairies, but I mentioned we supply a 100 of them. So I wouldn't be surprised at all to see the expansion of that beyond 17 dairies, and as you do the math around 30 dairies or even 50 dairies, it becomes a very, very substantial cash flow stream and significant amount of equity value to us.

Q: Again, you said you'll have 2 dairies by the end of this year and an additional 15 next year.

Eric McAfee – Founder, Chairman and Chief Executive Officer

Yeah, actually 2 dairies by the end of next month and then we're adding another 15 dairies against subject to COVID-19 timing over the next 18 months to build 15 dairy digesters would certainly be a goal we would have, and we'll see how our contractors can perform against that goal.

Our equity funding relationship with Third Eye Capital has been a strategic advantage for the project. Third Eye is very – $3 billion plus investment firm who has funded our company for more than 12 years. And so we have a well-established relationship. We think very, very highly of the relationship and worked diligently to have that as a strategic capability that we can bring to the table that other biogas producers cannot.

And so our initial relationship with $30 million has been signed equity funding, we're expecting to increase that to $55 million. And so we're able to move very, very quickly on these projects, save a lot of money to take advantage of price declines that occurred in raw materials, for example, that had substantial cost reductions this past quarter, and hopefully be able to by the end of next year exit it with this first phase one or phase two, completed and be working on phase three at the time.

Q: Great. And then on my last question is, if you do close the Riverbank project financing in the first quarter of 2021, when do you think you'll be able to have the plant completed and operational?

Eric McAfee – Founder, Chairman and Chief Executive Officer

It depends on the EPC final contractor view of things, but our strategy would be to try to pull it in an 18 months' timeframe. And what we've seen is it's largely around how much other activities going on. So we have long lead times on certain components because there's a lot of activity in the marketplace that extends at our project, because of the COVID-19 crisis we have seen some of these timeframes potentially shorten, and that obviously has a positive impact on our projects.

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

Eric McAfee – Founder, Chairman and Chief Executive Officer

Okay, thank you. Operator?

Operator

There are no further questions at this time. I'd like to turn the floor back over to management for closing comments.

Eric McAfee – Founder, Chairman and Chief Executive Officer

Thank you to Aemetis shareholders and analysts and others for joining us today. We look forward to talking with you to continue our dialogue about the growth opportunities in Aemetis.

Todd Waltz – Executive Vice President and Chief Financial Officer

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 audio version of this Aemetis earnings review and business update. Operator?

Operator

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