Resolution of Recent Distillers Grains Marketing and Logistics Issues

DGTC Symposium
May 16th, 2013
Who is Gavilon

Managing the world’s most essential commodities

Gavilon is a leading commodity management firm, connecting producers and consumers of feed, food and fuel in the U.S. and abroad.

We build trusting, mutually beneficial relationships with our suppliers, and provide quality information and service at a competitive price for our customers.

We provide origination, storage and handling, transportation and logistics, marketing and distribution and risk management services.

Headquartered in Omaha, Nebraska, we employ over 2,000 people worldwide.
Who is Gavilon

Providing a critical link in the supply chain for agriculture and energy

- We manage commodities with significant mismatches in supply and demand related to:
  - timing – production and demand cycles
  - geography – supply and demand location differences
  - quality – variability in production conditions and changing customer needs
  - quantity – number and size of producers and consumers

- We create markets and provide liquidity for producers, and offer flexible and consistent supply for consumers
Who is Gavilon

Leveraging scope and scale across 350 global locations
Corn Products (DDGS)

- Buy from over 75 different Ethanol Plants
- Ten (10) dedicated merchants, with fifteen (15) hybrid traders
- Six (6) U.S. and four (4) International offices
- Active in every North American and Global Market
- Most comprehensive distribution network in NA (Own and operate four 100 car unit train unloading facilities, 3rd party handling agreements with four unit train unloading facilities)
- Top 3 Exporter to China (Containers and Bulk), Top 3 Exporter to Canada (Rail and Truck), Top 3 Exporter to Mexico (Rail), the Ethanol Industry’s top three export customers !!
DDGS Quality Changes

Distillers Corn Oil

Mycotoxins

Production differences
Why Remove the Oil?

**Economics**
- Currently DDGS is being sold FOB plant at $240 a short ton = $0.12 per pound
- Currently feed grade DCO is being sold FOB plant at $680 a short ton = $0.34 per pound
- A typical 100 mg / year plant produces 36 million lbs per year, thus the income enhancement = $7.9 mm annually
  - Capital expenses to implement DCO extraction vary between $3.5 mm and $5.0mm leading a less than 1 year payback

**Plant Benefits**
- Plants dryers run more efficiently, producing a more consistent DDGS
- Plants ducting is cleaner along with wells evaporator fouling
- Improved DDGS flowability
- Plants nets revenue per gallon increases by approx $.07 a gallon / .20 a bushel
  - This can be the difference between maintaining the operations and idling due to lack or margins
Fats & Oils Group

- Largest independent shipper/marketer of Fats and Oils in United States (+9% market share)
  - 12% market share of Distiller’s Corn Oil (DCO)
- Engaged in Inedible Oils and Animal Fats markets for nearly 20 years
- Buy from over 75 different Ethanol Plants
- Six (6) dedicated merchants
- Six (6) U.S. and four (4) International offices
- Active in every North American and Global Market
- Most comprehensive distribution network in NA
  - Lease and operate 16 Aggregation and/or tank terminals in the U.S.
  - Major supplier to Oleochemical, Biofuel and Feed markets globally 3rd party
  - Extensive tank car fleet to support bulk aggregation as well as single plant asset needs
DCO Production History

note we started with 5 plants in 2005 (> 2 %)

DCO capable facilities

- Fall 2011: 36%
- Spring 2012: 51%
- Summer 2012: 56%
- Spring 2013: 78%
- est. Fall 2013: 88%
Low Fat DDGS (8 %) vs. Reduced Fat (5 %)

- What are we trading as the standard today?
- Discounts to apply?
- Origin or destination grade
- Consistent lab results

<table>
<thead>
<tr>
<th></th>
<th>Lab 1</th>
<th>Lab 2</th>
<th>Lab 3</th>
<th>Lab 4</th>
<th>Lab 5</th>
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<tbody>
<tr>
<td>Sample 1</td>
<td>9</td>
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<td>Sample 2</td>
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<td>7.3</td>
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<td>8.34</td>
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<td>Sample 3</td>
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<td>7.7</td>
<td>8.37</td>
<td>8.19</td>
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Mycotoxins Implications for DDGS Production

- Stressed corn potentially will carry bacteria / mycotoxins and have a lower test weight
- Bacteria can restrict the fermentation process
- Mycotoxins will pass through to the feed products and are multiplied by 2.5 to 3X
- Smaller corn kernels typically have less starch which could produce a reduced yield for ethanol

### FDA action levels for Aflatoxin

<table>
<thead>
<tr>
<th>FDA action levels for Aflatoxin</th>
<th>Description</th>
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<tbody>
<tr>
<td>20 ppb</td>
<td>For all food for human consumption and for corn and other grains intended for immature animals (including immature poultry) and for dairy animals, or when its destination is not known, and for animal feeds, other than corn or cottonseed meal</td>
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<tr>
<td>100 ppb</td>
<td>For corn and other grains intended for breeding beef cattle, breeding swine, or mature poultry</td>
</tr>
<tr>
<td>200 ppb</td>
<td>For corn and other grains intended for finishing swine of 100 pounds or greater</td>
</tr>
<tr>
<td>300 ppb</td>
<td>For corn and other grains intended for finishing (i.e., feedlot) beef cattle, and for cottonseed meal intended for beef cattle, swine or poultry.</td>
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What the Market Thinks

Avg. IA DDG value as % of IA Cash Corn
This has been a protein year. Thus discounts have not been severe.

Avg. IA DDG value as % of Soybean Meal

20% 30% 40% 50% 60% 70% 80%

Oct-06 Jan-07 Apr-07 Jul-07 Oct-07 Jan-08 Apr-08 Jul-08 Oct-08 Jan-09 Apr-09 Jul-09 Oct-09 Jan-10 Apr-10 Jul-10 Oct-10 Jan-11 Apr-11 Jul-11 Oct-11 Jan-12 Apr-12 Jul-12
What No-Flow DDGS Causes
Abuse
Flowability Aids
Railcar Damage and Opportunities
Gavilon’s Answer
# Car Weight Economics

<table>
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<th>Min</th>
<th>90</th>
<th>95</th>
<th>100</th>
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<tbody>
<tr>
<td>Car weight in tons</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>90</td>
<td>95</td>
<td>100</td>
<td>105</td>
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<tr>
<td>Transportation cost per ton</td>
<td>$63.33</td>
<td>$60.00</td>
<td>$57.00</td>
<td>$54.29</td>
<td>$52.78</td>
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<tr>
<td>Savings/Premium vs 100 tons</td>
<td>$ (6.33)</td>
<td>$(3.00)</td>
<td>$ -</td>
<td>$ 2.71</td>
<td>$ 4.22</td>
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**average shipment cost $5,700 car**
Rail Car Do’s and Don’ts

Do track each car and note damage upon return
  • Pictures each time back
  • Share with marketer
  • Hold end users accountable

Look at lease agreement – understand what it states and does not state
  • Talk to vendor and begin renegotiations
  • They built these cars specifically to promote flowability
    • Larger gates
    • Larger capacity

Isolate high starch / sugar DDGS
  • move into local truck market
  • Move via rail to locations with “probes”
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        402 889-4384