



The

DISPATCH

STEVE'S REMARKS Comments from our GM

Resiliency and determination matter. Our results for fiscal 19 and 1st quarter of the 2020 are perfect illustrations. The industry experienced some of the poorest margins in recent history during the beginning of 2019, coupled with our boiler incident in November of 2018 only intensified a serious downturn in revenue creating a "perfect storm". Operations and maintenance responded in a positive fashion. We had the plant operating again prior to Thanksgiving although I will admit with a limp for sure. We leased a temporary boiler and had it operating prior to the Christmas Holiday which got us back to about a 150-million-gallon annual rate. Our marketing group responded and found the customer base to handle the 1300 or so tons of wet feed we produced per day because of inability to operate our thermal oxidizer or RTO on the original plant. It is remarkable that we found a way in such a short period of time and how everyone pulled together until repairs were made and the plant returned to "normal" in August 2019.

Despite all the hard work, margins remained dismal until the middle part of the calendar

year. In June I was hoping to break even in fiscal year 2019, instead the market improved, and Little Sioux showed a positive result by the fiscal year end. To be forthright, other plants were experiencing severe stress by August 2019 and were slowing production to conserve cash. In September enough production capacity had shutdown that margins improved in October and November substantially. In December market signals allowed those who had slowed to come back online resulting in a deteriorating margin structure in December 19 through the writing of this newsletter. I will say that the margin structure has improved the last few days. Hopefully it continues.

I remain optimistic concerning LSCP's future. We continue to make plant modifications that increase production and increase energy efficiency. We are switching out 3 mole sieve bottles at shutdown because of metal fatigue to the vessel; piping and pump capacity are being increased, vaporizers are being hydro blasted with new internals installed, and heat exchangers in distillation are being upsized to accommodate additional flow plus

increased heat transfer. These changes should allow LSCP the ability to produce ethanol at a 165 million-gallon rate day in and day out which results in more money to the bottom line and increased potential for investor dividends.

We are in the engineering phase of the corn protein project we signed with Fluid Quip last fall. We had our first full project review in late January. We will be breaking ground in late February or sooner depending on weather conditions to construct our new wet feed pad so our original pad can be demolished for construction to begin in April on the Still-pro 50 process building. Its going to be an exciting time over the next year as we move from constructing, to commissioning, and finally into full production mode in late first quarter 2021. Its all good stuff!



Steve Roe
General Manager

Commodity Corner



Jake Wetter
Grain Merchandiser

1 trade deal have failed to spark the market higher. The macro influences of a very strong US dollar & US stock market are keeping the big money out of commodities for the time being. The strong US dollar is also the major headwind

We're settled in to the long, cold winter here in the Upper Midwest as producers didn't get the bullish data they were hoping for from the USDA this month. The January USDA report & the China phase

to US ag exports as well. The strong US Dollar has also been a major hinderance to the profitability of the ethanol industry. In 2019 ethanol exports were down over 13% from 2018's total and DDGS exports were down 9%. Hopefully the recently agreed-upon trade agreements can help the ethanol industry recoup some of the lost demand we have seen in the last year. Not to be outdone by ethanol & DDGS, corn exports are down 41% from a year ago due to a strong dollar & a huge South American crop last summer. February thru September is the time of year when our corn exports can be very brisk as exportable supplies run out in South America and the US is the only major seller in the world market. Time will tell if

we can hit the 1.75 billion bushels export number the USDA has published.

Core your Bins!!! That is the best marketing advice I can give you this winter. This past year's crop was higher in moisture than the past few years. Quality has & will continue to be an issue with this year's corn crop. Get the centers pulled. I have even heard of corn that was dried and cooled going out of condition in the peaks & centers. No reason to turn \$3.75 - \$4 cash corn into \$2 corn due to damage discounts. Capture the extremely strong basis this winter before it is gone. We have been able to get a lot of corn priced for guys in the \$3.90-\$4 cash range the last month or so. Corn basis remains hot as farmers are still unwilling sellers even with cash prices nearing \$4.00. Producer marketing remains light and basis on corn and

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10 fingers, 10 toes, 2 eyes, one nose ...Safety counts!



Chris Williams
Plant Manager

Process Safety Management (PSM) is a program that is required due to the amount of flammable materials we handle and store on-site. Denatured Ethanol, due to its flammability, is considered highly hazardous and requires a PSM program to recognize and protect against those hazards. PSM is designed to keep our employees, contractors, and the general public safe. It is an extensive program with fourteen different elements. Safety is an ongoing process and managing that safety program is our life.

Widespread employee involvement in our safety programs is key. The availability of process safety information concerning the physical, chemical and toxicological hazards in our process will help make decisions about what should and should not be done. A well-organized

and systematic approach to point out specific hazards is done with a comprehensive Process Hazard Analysis (PHA). Process hazard analyses will look at specific items in detail to determine what consequences could occur if a step is missed or an alarm isn't given. Following clear Standard Operating Procedures is a step to protecting our employees and equipment from harm. A job at Little Sioux Corn Processors requires extensive training. The hazards must be communicated to all employees and contractors that work here in order to protect our people from the hazard. The ethanol production process is not a simple process and it takes time to understand production flow paths, emergency planning, troubleshooting, and the cause and effect of typical jobs around the plant.

Anytime a change is made, a management of change must be conducted beforehand to assess the change. Management of changes considers additional hazards that are controlled with the change as well as communicating the changes throughout the company including a training or overview of the

modifications that will be made. Prior to equipment restart after shutdown or with a new install, a pre-startup safety review is done to ensure that items are in the correct states. This facilitates an opportunity to catch a mistake before that item goes into operation.

Communication of the hazards with contractors is another important part of the program. This ensures the contractors have adequate training. Our hot work program is a fire prevention technique where areas are evaluated before a person begins doing any cutting, welding, or other hot work in a specific area. The hot work program ensures that fire prevention measures are taken and that equipment to fight a fire would be available if needed.

Finally, the PSM program needs to be audited every three years. Additional reviews of the PSM program are a good way for the company to monitor compliance and ensure that it is meeting all the required expectations of the program. Safety is not expensive; it is priceless.

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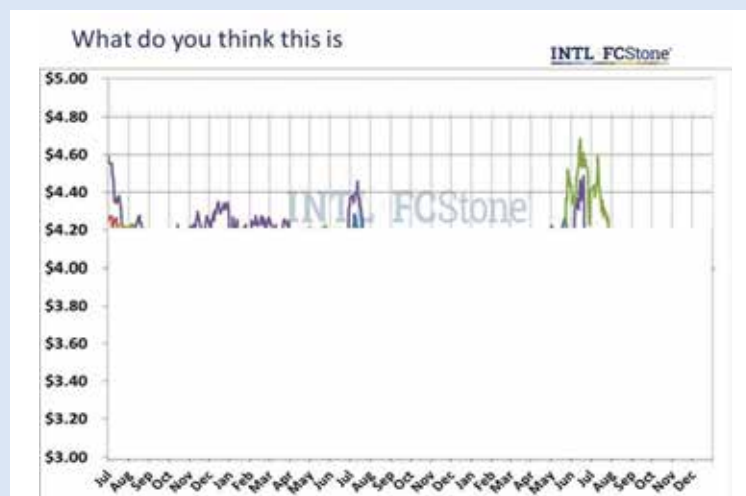
beans are both above levels seen the last couple of years. Cash corn basis continues to run 30 c/bu above levels seen the last couple of years. Cash corn has averaged \$3.85 the last 4 months. That is 50c/bu higher

than our average bid the last 4 years during October – January. As we continue to see a historical higher corn basis this crop year, it will be interesting to watch how long this will last as we head closer to spring & summer.

“How often do you get to sell new crop corn above \$4.20 futures?” This chart is Dec corn...40 month of CZ for years 2016-2021. The blank portion is at \$4.20 or lower. The point of the picture is to illustrate how many times the producer has had the opportunity to sell \$4.20+ Dec futures since Dec 2016 contract. I think this is a good piece to show you when new crop futures levels get back into the \$4.00 to 4.20 futures price range maybe one should be a little more aggressive selling new crop corn. If 95 million corn acres get planted & the weather is average this summer Dec 20 corn board could be way lower by fall.

US production is in excess of the biofuel and feed demand in the US creating a need for exports

and the world is experiencing good corn crops to also answer expanding world demand. As it stands now, the key Midwest states are realistically able to produce a 200 bu/acre crop. Last year Iowa produced a 198 bu/acre crop even with floods, delayed plantings, and other weather adversities. Illinois fought its way to a 181 yield despite arguably worse weather problems. The year prior, Illinois yielded 210 bu/acre. Essentially the conclusion is that the weather is going to have to be worse than it was last year to hold yields down to the point that we produce less than a 2 billion bushels carryout. The new crop bids produce positive returns above variable costs for those who are willing to lock some of them in.



FINANCIAL STATEMENT *Review*

By Gary Grotjohn



Gary Grotjohn
Controller

Fiscal Year Ended September 30, 2019 Update:

In the previous newsletter, we reported a \$3 million gain for the 2019 fiscal year. We also noted that the business interruption insurance settlement would add to the net income. We will be reporting substantially higher earnings for the 2019 fiscal year totaling \$15.8 million. This is a result of reporting the net value of the insured equipment that was replaced as other income. The \$9.2 million of the insurance settlement for this replaced equipment is not treated as taxable income and will not increase the taxable earnings shown on the K1s.

LSCP, LLC Statement of Operations For Periods Ended September 30, 2019 and 2018

	Quarter Ended December 31, 2019 (Unaudited)	Quarter Ended December 31, 2018 (Unaudited)
Revenues	\$70,232,000	\$48,398,000
Cost of Goods Sold	\$64,824,000	\$51,747,000
Gross Margin	\$5,408,000	(\$3,349,000)
Operating Expenses	\$1,373,000	\$1,217,000
Income from Operations	\$4,035,000	(\$4,566,000)
Other Income (Expenses)	\$193,000	\$111,000
Net Income	\$4,228,000	(\$4,455,000)

Quarterly revenues and expenses increased over last year due to the return to normal production following last year's explosion. Additionally, ethanol prices received increased by 21% over last year, and the per bushel cost of corn rose 11% over last year.

LSCP, LLC Balance Sheet For Periods Ended December 31, 2019 and 2018

	As of December 31, 2019 (Unaudited)	As of December 31, 2018 (Unaudited)
Total Current Assets	\$40,032,000	\$39,185,000
Net Property and Equipment	\$105,634,000	\$94,952,000
Other Assets	\$3,976,000	\$4,291,000
Total Assets	\$149,642,000	\$138,428,000
Total Current Liabilities	\$21,133,000	\$23,640,000
Owner's Equity	\$128,509,000	\$114,788,000
Total Liabilities and Equity	\$149,642,000	\$138,428,000

The increase in Net Property and Equipment was a result of equipment replaced due to the explosion. Increase in Owner's Equity is a result of yearly earnings less the December distributions to owners of \$10,842,600.

LSCP, LLC Owner's Data For Periods Ended December 31, 2019 and 2018

	Quarter Ended December 31, 2019	Quarter Ended December 31, 2018
Outstanding Ownership Units	271,065	271,065
Original Cost of Units (\$1000/15)	\$66.67	\$66.67
Period Earnings	\$4,228,000	(\$4,455,000)
Per Unit	15.60	(16.44)
% of Original Unit Cost	23%	-25%
Ethanol Gallons Produced-Denatured	39,682,225	32,385,566
Per Unit (Annualized)	585.58	477.90

Most Recent Unit Sales

Class A: August 2019 - 50 Units @ \$525

Class B: April 2019 - 56 Units @ \$523

Class C: April 2018 - 120 Units @ \$650

USGC: Phase one trade deal with China promises ag sales

By U.S. Grains Council | January 21, 2020

Darren Armstrong, USGC chairman and farmer from North Carolina, and other U.S. farmers were present at the White House on Wednesday for the signing of the phase one trade deal with China.

President Donald Trump and Chinese Vice Premier Liu He signed a "phase one" trade deal Jan. 15 at the White House, an agreement that should pave the way for China to uphold its pledge to purchase up to \$80 billion in agricultural goods over the next two years and make structural changes that should provide U.S. grains products improved access to the Chinese market over the long term.

The agreement is set to go into effect on Feb. 14, 30 days after the signing. The deal itself runs more than 90 pages and reportedly also includes confidential sales targets for a full range of U.S. agricultural products, including grains, distillers dried grains with solubles (DDGS) and ethanol.

U.S. Grains Council Chairman Darren Armstrong, a farmer from North Carolina, was among the farmers and others who attended the agreement's signing.

"The Council is pleased to see the signing today of a phase one deal with China, which should reduce continued market uncertainty and incentivize China to purchase significant amounts of U.S. agricultural products," he said in a statement released on Wednesday.

"The structural reforms in the agreement—once fully committed and implemented—will hopefully offer lasting impacts beyond short-term commitments to make accelerated, market-driven purchases. The agreement, as we understand it, will offer opportunities for U.S. farmers to once again become competitive in China and serve our customers by addressing retaliatory tariffs and long-standing, non-tariff barriers to trade."

Despite ongoing trade tensions, the Chinese market holds immense growth potential for U.S. agriculture. China is the second largest corn producer and consumer behind the United States and, in the past, was the world's largest importer of sorghum and DDGS. These feed ingredients supply the world's largest swine, aquaculture and egg industries, the second largest poultry industry and growing dairy and beef operations.

In the run up to the event, the Trump Administration also removed China's formal designation as a currency manipulator since the deal includes commitments from China to upgrade its currency practices and refrain from further competitive devaluation. This and the warm reception at the deal's signing are considered signs of improved relations between the two countries.

Over the years, the Council has leveraged its capital and expertise to help advance China's food security, safety and sustainability through trade. It has been at the forefront of helping local producers lead modernization of China's swine industry, a dairy technical training center and myriad of other trade servicing tasks. In recent years, the Council's China office has offered technical and logistical input as China seeks to diversify its fuel supply and achieve environmental benefits by blending fuel ethanol.

"Our organization and our members believe in the long-term value of international trade," Armstrong said. "We have spent more than 35 years working with partners in China to develop its feed and livestock industry. Our sector is committed to remaining a reliable supplier of grain products and ethanol for customers in the feed, food and energy industries in China as our countries' relationships evolve."

The Trump Administration has said there will be a second phase of negotiations, though it may not be concluded until after the presidential election in November.



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ANNUAL MEETING

MARK YOUR CALENDAR

Tuesday, April 7th

1:30 pm

Doors open at 1:00pm

Western Iowa Tech Campus

200 Victory Drive

Cherokee, IA 51012

