

# The Energy Forum

## Lincolnway Energy

NEVADA, IOWA

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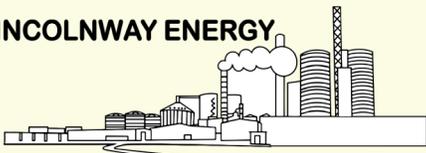
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### UNIT TRADING

January 2017:	9 Units @ \$650/Unit
February 2017:	No Sales
March 2017:	16 Units @ \$700/Unit 75 Units @ \$725/Unit
April 2017:	25 Units @ \$700/Unit 25 Units @ \$750/Unit
May 2017:	25 Units @ \$675/Unit
June 2017:	No Sales

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### PURESTREAM™ DRYER PROJECT

By Eric Hakmiller, President and CEO

I have always enjoyed making alcohol. The process is elegant, the people in the industry are honest folks and telling people I meet that “alcohol has been good to me” is guaranteed to get a double take out of most casual strangers. The truth of the matter is we do make alcohol but the money in this business is made on the margin and for us that is often the value of our co-products be it DDGS or corn oil.

Co-products have been a tough way to make a living as of late as the Chinese and others have pulled out of the DDGS markets with a disastrous impact on prices. DDGS values have been awful for most of the year, running at 75 – 85% that of corn, a level we have not seen since the early days of the industry. While the industry has suffered, Lincolnway has carried more than our share of the pain as we have supplied upwards of 40% of our material to the Chinese market in recent years.

As I have mentioned at various annual meetings, we have been on a technology path over the last several years we call PureStream™. Fortunately, this technology will supply some relief to this problem. On a high value co-product like corn oil, it is easy to

create more value in that the more you pull out of the corn the more money you make. Our extraction rates today are some of the highest in the industry and prices for oil are strong.

On a lower value commodity like DDGS, it is much more difficult. To build value here, the process has to be redesigned to produce a product that fits the needs of a higher value demand. A producer needs to be able to differentiate itself from the market. For us the answer to that is our new line of PureStream™ Proteins.

PureStream™ Protein is a higher protein animal feed with an amino acid profile we have designed for the swine and poultry industries. Our PureStream™ Proteins will be a 42% protein feed with an even mix of essential and non-essential amino acids. As monogastric animals, pigs and chickens need not only a higher protein diet than can be provided by a standard DDGS but also specific amino acids in that protein in order to grow faster and have better quality meat. This is especially crucial in the early phase of their diet where faster growth leads to better growth later and lower mortality rates.

*continued on page 2*

### FORWARD LOOKING STATEMENTS

Some of the information in this newsletter may contain forward looking statements that express Lincolnway Energy's current beliefs, projections and predictions about future results or events, such as statements with respect to financial results and condition; future trends in the industry or in business, revenues or income; litigation or regulatory matters; business and operating plans and strategies; competitive position; and opportunities that may be available to Lincolnway Energy. Forward looking statements are necessarily subjective in nature and are made based on numerous and varied estimates, projections, beliefs, strategies and assumptions, and are subject to numerous risks and uncertainties. Forward looking statements are not guarantees of future results, performance or business or operating conditions, and no one should place undue reliance on any forward looking statements because actual results, performance or conditions could be materially different. Lincolnway Energy undertakes no obligation to revise or update any forward looking statements. The forward looking statements contained in this newsletter are included in the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended.

*PureStream™ Dryer Project continued from page 1*

We have targeted these species in our development because Iowa is experiencing rapid growth in these types of animals. There are 20 million pigs raised in Iowa at any given time and 60 million layers grown here each year. Cattle is the traditional market for DDGS but there are not any large cattle yards near our facility, meaning we need to ship past our competitors to hit these markets. We will be able to supply the monogastric market via truck from the facility, which will cut down on our needs of rail cars and decrease our dependency on China.

PureStream™ Proteins are showing remarkable results in feed trials we are conducting on these animals. We have been running trials at the University of Illinois and Iowa State. We are seeing higher energy and amino acid uptake and solid growth rates in both chickens and pigs. This will allow us to sell our material into higher value markets at a premium to current values.

The final piece to the puzzle was finding a dryer that we could both afford and could give us a superior finished product. High protein material will not work in our current dryer, as the material is sticky (think peanut butter) and would just make a mess. After an exhaustive search we found it in REI's Compression Drying System. This process uses two augers to compress the material and wring the water out of the feed. This allows the material to dry without ever getting over 190 ° F.

The unusual feature of this dryer system is that they take a very long footprint but as we are going to install them in the old coal boiler

building that actually works to our benefit. The PureStream™ Protein will enter the dryer units on the north side of the coal building and be dry by the time it hits the south end. We will lift them into the old coal silos for storage before they are loaded out. If you drive by the plant and see cranes working on our site, they are readying the building for these dryers. Finding a process that could fit on our coal building footprint and reutilize the silo provided a significant savings to the install cost of the entire project.

So, there we go. We have a large growing market at our doorstep in the swine and layer markets. We have an opportunity to get a higher value feed stream into the market. We have found efficient technology to install a dryer that will fit in the unusual footprint of the old coal boiler. All the pieces are fitting together. At the current construction schedule, we ought to have this material to market by the end of the year. It's all going to come down to execution of the plan. It is exciting times here at Lincolnway. We are seeing results of the PureStream™ process in ethanol production and oil yields. We cannot wait to see what it can do with the rest of our protein.

As always, I want to thank you for your support in getting the company to where it is today. If there is any question you have on PureStream™ or any other aspect of the facility please feel free to give me a call. I will do my best to answer your question given the many restrictions the federal government puts me under to do so. I look forward to seeing you at our fall picnic.

## FINANCIAL REVIEW

*By Kris Strum, Director of Finance*

Lincolnway Energy, LLC reported net income of \$2.7 million for the six months ended March 31, 2017, a 166% increase from the previous year. Revenues increased \$9 million over the previous year. Ethanol sales increased \$9.1 million, or 25%, due to higher ethanol prices and a 13.3% increase in sales volume due to better production rates with the optimization of the production process.

An increase in corn oil revenue offset by a decrease in DDGS revenue resulted in a 1.8% increase in co-product sales. Corn oil revenue increased \$1.3 million, or 88.7%, after the implementation of several process improvements. Corn oil production at LWE continues to hit record high levels while market prices also increased due to increased demand from the biodiesel industry. DDGS revenue decreased \$1.2 million due to the reduction in market prices resulting from lower corn prices and decreased export demand, principally from China.

Cost of goods sold for the six months increased by 4.2%, or \$2.1 million. The increase was primarily due to increases in corn costs, and repairs and maintenance, offset by a decrease in depreciation. Corn costs increased by \$1.5 million, or 4.3%, from higher production. Repairs and maintenance increased approximately \$.8 million, or 94.9%. A larger focus has also been made on preventative maintenance to reduce downtime and maintaining higher production rates. Depreciation totaled approximately \$1.6 million, a decrease of \$1.5 million. The decrease in depreciation resulted from the fact that the plant has completed 10 years of operation and a majority of the original assets are now fully depreciated.

In March 2017, LWE began a capital project for the installation of a grains drying and cooling system. Payments of \$2.4 million were made on the project during the six months ended March 31, 2017. The project is estimated to be completed in the first quarter of fiscal year

2018. This new drying and cooling system will aid in our development of a new high-quality species-specific animal feed.

Working capital was approximately \$5.4 million and our book value per share was \$956 at the end of the 2nd quarter for fiscal year 2017.

### Comparison of the Six Months Ended March 31, 2017 and 2016

Statements of Operations Data:	2017	2016
Revenues	\$ 55,878,701	\$ 46,864,241
Cost of Goods Sold	51,550,023	49,453,901
Gross Profit	4,328,678	(2,589,660)
General and Admin. Expenses	1,583,011	1,475,654
Operating Income (loss)	2,745,667	(4,065,314)
Other Income (loss)	(28,391)	(24,760)
Net Income	\$ 2,717,276	\$ (4,090,074)

Balance Sheet Data:	March 31, 2017	September 30, 2016
Working Capital	\$ 5,376,874	\$ 5,265,892
Net Property Plant and Equipment	38,099,084	34,929,124
Total Assets	48,104,077	46,085,438
Long-Term Obligations	4,092,776	3,542,593
Member's Equity	40,211,066	37,493,790
Book Value Per Member Unit	\$ 956	\$ 892

# LINCOLNWAY ENERGY - GOING TO THE HOGS

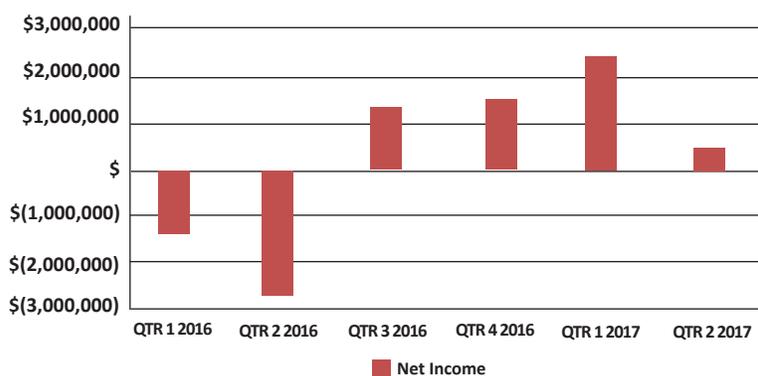
By Blair Picard, Commercial Manager

At Lincolnway Energy, we are in a commodity business. We are competing against 200 odd other ethanol plants, mostly scattered around the Corn Belt. The ethanol, corn oil and DDGS animal feed that we produce, and the corn that we buy, are largely indistinguishable from everyone else's. Our primary, and almost only competitive lever, is price. Thus we are forced to slug it out on a daily basis with the rest of the herd. Given that the markets we deal with are large and very efficient, it is a difficult challenge to identify, develop and exploit any competitive advantage for very long.

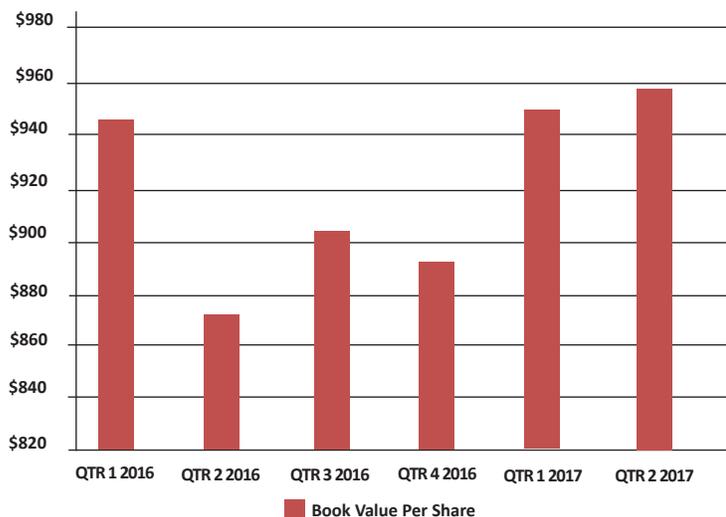
In this competitive environment, we are continually striving just to stay even in both the operating and commercial spheres. By and large, we are pleased to report, our efforts in both areas the past few years have been successful. But the other guys are not standing still. So we are continually challenging ourselves to find new and unique ways to separate ourselves from and move ahead of the pack. Our oil extraction improvement is the best example of an idea to establish a lasting competitive advantage. We knew that oil, per pound, was by far our most valuable product. We also knew that we were located in the center of the corn oil biodiesel universe. These commercial facts pushed us to leverage our operating expertise and create plant investments that have significantly benefitted our bottom line.

financial review continued from page 2

**LWE Net Income**



**LWE Book Value Per Share**



A complete SEC 10Q report for the six months ended March 31, 2017, can be found on a link on the Lincolnway Energy's website under the heading Investors and SEC Financial Report. Fiscal year Q3 2017 results will soon be available in the company's form 10-Q, filed with the SEC.

In 2016 it became apparent we had a problem with our animal feed products. China had imposed punitive duties on DDGS imports. What had been a \$200 per standard ton commodity was now a \$90 commodity. In addition, due to the original coal boiler design of our plant, our capacity to dry all our animal feed products was insufficient at higher run rates. In animal feeds, we were painfully learning a few facts of life. The wetter the product, the cheaper was the price. It costs too much money to transport water. The higher the protein, the higher the price that could be obtained and the relationship was much greater than linear. And very importantly, different animal species thrive on different kinds of protein.

Most DDGS and other wetter products were moving to cattle markets; these animals thrive on the high fiber mix of our co-products. Relatively speaking, there aren't that many cattle in our area. But Iowa is the Saudi Arabia of hogs. We have much more than twice as many hogs as any other state. Hog numbers are up 8% in the last five years. Pork consumption per capita is up over 9% during that time, and pork consumption will surpass beef consumption in the next five years. Exports are steady and appear poised for growth as Latin American and Asian markets expand. A hog looks at its animal feed differently than cattle. Here protein is the most important component and not only that the specific amino acid make up of that protein.

Probably the only nutritional subject that has been studied more than how to get humans to lose weight effectively is how to get meat animals to gain weight effectively. And fortunately, the hog species is more enthusiastic about accomplishing their task than the human species is about accomplishing theirs. Without saying too much, suffice it to say the hog feed market could be very favorable for LWE. As mentioned above, one of the keys is getting the right protein concentration with the right components to obtain better weight gain results than current diet formulations. From these learnings was born our project to develop a species-specific animal feed that would target the swine market that came to be called PureStream™ Protein.

We can now produce a protein rich product and we are in the process of converting the old coal boiler building into a protein drying building. This protein has demonstrated a higher digestible energy and higher metabolizable energy in studies run at the University of Illinois than conventional DDGS. They also demonstrated superior amino acid uptake in a separate study done at the University. This is ideal for growth in hogs especially in the early stages of their life. LWE's PureStream™ Protein is currently well into its development phase and should be hitting the market this year. We are currently running additional studies on swine completing multiple studies at leading universities to prove and confirm these findings. We are very excited about this new product and are hopeful it will allow us to take a significant and long-lasting leap ahead of our competition.

Corn oil sells for over \$500 per short ton versus a DDGS value under \$100 per short ton. The oil winds up in the DDGS unless you can coax it out. You can imagine that our production team has been hard at work trying to make more leftover corn oil and less leftover DDGS. Between their excellent work on some of our original equipment and some very effective technology investments we are making more corn oil and less DDGS. We must call corn oil our favorite leftover now.

Our ability to effectively market and optimize our DDGS and corn oil pricing has been a key factor in improving our profitability. We have moved ahead of the crowd in our byproducts program. While ethanol remains our main course, our attention to our leftovers has paid significant dividends.

# NEW EMPLOYEE - BLAKE GOOD

Hello. I am Blake Good, the new Environmental, Health and Safety Manager at Lincolnway Energy. I am very excited to be part of this team and look forward to a bright future at Lincolnway Energy.

I was born and went to college in Ames, but grew up in the Quad City area. Most of my family currently lives in the Des Moines area, and we love it here. I have three kids with one on the way. Outside of work, my kids consume the majority of my time. I do a lot of baseball and softball coaching for my two oldest. I also do baseball and softball hitting instruction for young kids.

I have a degree in Industrial Engineering and Business Management from ISU and have my MBA through the University of Texas. I have been working in manufacturing for over 15 years in leadership roles focused on safety, HR, and operations. Most of my time was spent in the food packaging industry, where I worked in plants all over the country. Glad to be grounded and home in Iowa, though!

I am very excited to be a part of this great company.



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