



Newsletter – Third Quarter 2020

Notes from the CEO

Net Income during the third quarter (Q3 or April, May and June) 2020 was negative (\$1,417,025) versus negative (\$751,552) during the same three months of FY 2019. Modified Earnings Before Income Tax Depreciation and Amortization (MEBITDA) for Q3 2020 was \$1,995,362 versus \$17,171 during the same period last year. Net income after nine months in FY 2020 is negative (\$2,313,650) and was negative (\$3,876,411) in the comparative period of FY 2019. After nine months, MEBITDA is \$6,752,816 for FY 2020 and that compares to \$1,489,364 during the first nine months of FY 2019.

The following table provides comparative data relating to certain operating measures from Q3 of our fiscal year versus the same period last year. In addition, the nine-month values are provided for your reference as well.

Table 1.

Description	Q3 FY 2020	Q3 FY 2019	9 mnth FY 2020	9 mnth FY 2019
Production (den gal)	22.69 million	30.33 million	86.13 million	96.60 million
Ethanol Yield (den gal/bu)	2.826	2.913	2.893	2.898
Ethanol Price (per gal)	\$1.21	\$1.35	\$1.31	\$1.25
Corn Price (per bushel)	\$3.05	\$3.97	\$3.55	\$3.68
Corn Oil Yield (lbs/bu)	0.91	0.98	0.97	0.99
BTU ^s /gallon	24,486	21,963	24,234	23,290
Steam Natural Gas cost per MMBTU	\$2.27	\$3.40	\$2.69	\$3.71
kWh/gallon	0.801	0.685	0.670	0.655
Chemical cost (\$/gal)	\$0.061	\$0.099	\$0.087	\$0.098

For further performance comparison, the cost of production data on a cents per gallon basis is presented in Table 2.

Table 2.

Cost per gallon	YTD 2020	FY 2019	FY 2018
Variable	0.2134	0.2436	0.2541
Fixed	0.1400	0.1206	0.1411
G&A	0.0452	0.0375	0.0387
Total	0.3986	0.4017	0.4339

Performance

As mentioned in the last newsletter, the impact of the COVID induced economic shutdown caused us to reduce the output of the plant during the period of March – May. Accordingly, those effects are demonstrated in Table 1 above. Production was off 7.64 million gallons from the same quarter in the previous year. Our efficiencies were impacted as well. Ethanol yield at 2.826 gallons per bushel was well below our goal. However, it was partly a result of choosing to use less expensive ingredients in the production process, as noted by a significant reduction in chemical costs (3.8 cpg less versus the same period last year). In other words, we made the decision to operate in a configuration that would preserve as much capital as possible. The lower volume of ethanol output negatively impacted energy efficiency with both our BTU's/gallon metric and the kWh/metric higher than the previous year due to fewer gallons to spread the energy inputs over.

During May we had our regular spring maintenance shutdown. Numerous repairs were made, systems cleaned and projects were completed to allow for consistent operations for the next year. The costs associated with this effort are significant and will consequently skew the production cost metrics in Table 2 and the comparison to prior periods. It was gratifying to note that even with that expected cost impact, total production costs are below both FY 2019 and FY 2018. We expect the remaining quarter to further reduce the cost structure.

Update

The COVID-19 pandemic created a significant demand for alcohol used to create hand sanitizer. With relaxed standards from the Food and Drug Administration (FDA), SIRE was able to support efforts focused on increasing the supply of hand sanitizer. The FDA has since revised their temporary rules a number of times and on June 1st they issued very specific requirements that SIRE could not meet. We continue to look at ways to meet the guidance and are also mindful of the number of announcements from facilities that intend to bring additional capacity online to produce alcohol that meets U.S. Pharmaceutical (USP) grade specifications. The publicly stated intentions that we are aware of amount to over 200 million gallons per year. In addition, there are at least four additional companies that have announced projects to be able to continuously produce higher grade alcohol but have not, to our knowledge, announced specific gallon targets. Finally, there are producers currently in the higher grade alcohol business that have signaled they are increasing capacity as well. SIRE has received preliminary estimates to put in the additional distillation equipment required to meet the standards and these came in at approximately \$15 million. That amount does not account for additional tankage and systems required for the proper ongoing handling measures required by the FDA. At this time, SIRE has no plans to make that type of capital commitment for the addition of permanent industrial grade capacity. We are, however, pleased to work with a key partner in a supplier relationship that we believe will allow us to provide base feedstock at attractive margins into the extended future.

The Road Ahead

On the state level, SIRE is pleased to be a long-standing member of the Iowa Renewable Fuels Association (IRFA). Among other things, IRFA provides a strong voice for our industry at the statehouse in Des Moines. Each year IRFA assists SIRE by handling the preparation and mailing out of our request for donations to the SIRE Political Action Committee (PAC). It is important to be engaged with our political representatives and one way we do that is with campaign donations. The SIRE PAC is not aligned with either political party but instead aligns itself, through support, with elected officials and candidates that understand and support the renewable fuels industry. If you have supported the SIRE PAC in the past, thank you. If you haven't, I'd ask you to consider it when you receive our request for donations. It is one more way, in addition to personal advocacy and voting, that we can make our voices heard.

By the time the next quarterly newsletter is generated, the 2020 harvest will be in the bin. Aside from very recent inclement weather, it looks to be a very good one in our area. Our Commodity and Operations Teams are gearing up to handle the incoming bushels with plans once again to create temporary piles at SIRE once the bins are full. Year after year, the need for additional corn storage is discussed at our various long-range planning sessions. We will be working to make those plans a reality over the next couple years.

Speaking of corn, be on the lookout in the coming days for an announcement of a field day that will showcase varieties of corn that we think have the potential to benefit both SIRE and growers. SIRE has been exploring this opportunity for the last several years and we look forward to expanding the acres in this project in 2021.

Thank you for your support.

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Interested in selling your grain to SIRE? Interested in buying dried or wet distillers grain? Call Kristan Barta (712-366-8830) or Mack Walford (712-352-5017) today.

Sincerely,

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