



Early adopter talks strategy for investing

By **CHERRY BRIESER STOUT**

MILLEDGEVILLE farmer Brad Smith jumped on the ethanol bandwagon in the 1990s, investing in a farmer-owned plant called Adkins Energy, at Lena.

Earlier this year, Smith sold his shares to another co-op member.

"Shares are worth 60% more than we paid. We achieved our objectives," says Smith. "It's time to move on," notes the young farmer, who is now looking at buying into another ethanol start-up. He is studying a stack of prospectuses from several proposed ethanol and biodiesel plants in northern Illinois.

One plant is already under construction at Rochelle, while other proposed plant sites include Hennepin, Princeton, Annawan, Thomson and Rockford.

The sheer number of potential sites is a concern for Smith, who believes there is a limit to how many profitable ethanol plants a region can support. However, that won't stop him from betting on a plant in the right location with good management.

Lessons learned

Smith learned a few lessons from Adkins Energy, which experienced early growing pains, but later grew into a profitable venture. "A lot of other ethanol plants learned from our mistakes," according to Smith.

Below, he shares a few things to consider before you invest in an ethanol plant:

■ **Push the pencil.** Smith has pored over many prospectuses that "look wonderful" with optimistic returns of more than 20%.

"If it was that easy, everybody would do it," he notes.

"In the last two years, ethanol plants made a lot of money. But if you plug in \$2.40 corn with cheaper ethanol in any proposal, it's not going to work," he believes. "You better really understand the market and what the revenue streams are."

"Originally, distillers grain was considered a significant revenue stream. That's not the case anymore," says Smith, who doesn't plan on DDGS having as much value when he



INSIDER ADVICE: Brad Smith suggests farmers be careful how much value is placed on ethanol coproducts.

evaluates future ethanol plant opportunities.

■ **Do your homework.** Check out a proposed ethanol plant as closely as you would any other major purchase. Consider its location, access to good transportation systems and local corn supplies.

■ **Evaluate the plant's management team.** The ability to make good, sound business decisions will be critical to the plant's success. In the ethanol business, "you need to be quick and nimble in your decision making," notes Smith, who is looking for experienced management that he can trust.

"I have a great deal of respect for the founding group of Adkins. They had to persevere through some difficult times, but they blazed a trail for others to follow.

"Personally, I may not invest in another farmer-owned co-op," he says, noting that farmers are good at producing corn, but they may not be the best at managing a facility to brew ethanol.

■ **Recognize the risks.** Even if the plant looks like a good investment, "don't invest dollars that you're not willing to lose. There are so many unknowns. It's a huge amount of risk."

■ **Make sure you're committed to the future.** Investing in an ethanol plant is a long-term commitment, says Smith, who views it as a natural hedge for a corn producer to have some sort of ownership in ethanol. "I want it as a consistent reliable market for grain. Ten years ago, when I started farming, the river was the only market. I love having options to go different places with my corn."

need to make wise decisions about where to place ethanol plants or risk failure."

Changes ahead

Industry observers expect the ethanol business to evolve during the next few years. High-cost producers, mainly small plants or plants not keeping pace with technology, may need to alter operations or consolidate with other small facilities to survive.

"We're seeing some changes in structure already," says Holmes. "Early ethanol plants used a 'new-generation co-op' model, where investors had the right and obligation to deliver corn to the plant.

"But you can't always get all the corn you need this way," she explains. "You need an LLC for equity, and more projects are going that way. It takes away the obligation to deliver

corn and widens the investment pool beyond farmers. You can more easily build a long-term sustainable project with working capital.

"Opportunities for investment are available statewide, but you have to run the numbers. You can't make decisions of the heart," says Holmes. "These farmers may want more for their corn, but corn is also the No. 1 input cost for ethanol. The reward is on the backside, and farmers must be educated about this fact before getting involved."

More consumer education is also required, says Burger.

"The risk is at the pump. We need the public to understand the value of ethanol," he says. "I hope farmers won't look back in five years and think they missed out on an investment opportunity. Hopefully, we will still have room for growth and



CORN'S FUTURE: "Our fields are always pumping. Corn supplies are increasing; oil supplies aren't," says Newman farmer Roger Sy.

room for more involvement," Burger says.

Baylor Anderson writes from Edwardsville.

Expert outlines ideas on ethanol expansion

ETHANOL plants in Illinois are currently located too far apart from each other. That's according to industry consultant Leon Langhauser of Langhauser Associates Inc., Decatur.

And he has plenty of other views on ethanol success and industry expansion in Illinois.

Reduced transportation cost is a major contributor to the success of an ethanol plant, Langhauser says.

"If corn is coming into plants from farther than 50 miles, that is too far. Hauling corn 15 or 20 miles is economical. Then we can take advantage of current technology to process high-moisture corn directly from the field and be designed to expand the process to include corn stover as the new cellulose fermentation technology is improved," he says.

"If we build plants every 30 to 40 miles with easy access to transportation, we're better off. Illinois could support 40 to 50 plants downstate along the railroads or rivers," Langhauser says those plants need to take on a new look and a new mission.

"Right now, farmers are investing in 'cookie cutter plants' that could shut down when government subsidies end. Many will not be able to make money," he says. "The future is to better utilize the whole corn plant beyond making just alcohol and DDGS and include such value-added coproducts as oil and meal, low-starch fiber, fermentation media, high-protein concentrate for animals and food-grade products for humans."

Langhauser suggests smaller ethanol plants sell alcohol to bigger plants and crude-oil refineries that can refine, blend and market ethanol more economically. He also envisions refineries, grain and feed merchandisers, transportation companies, and large wet millers cooperating with farmers to build plants that attract livestock and poultry operations. Excess high protein can be exported to Asia and other protein-deficient areas.