

# **Gevo, Inc. (GEVO) Q1 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

May 2, 2024 Thursday

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**Length:** 8871 words

**Byline:** SA Transcripts

**Body**

Gevo, Inc. (GEVO)

Q1 2024 Earnings Conference Call

May 2, 2024, 4:30 pm ET

Company Participants

Eric Frey - VP, Finance &Strategy

Patrick Gruber - CEO

Lynn Smull - CFO

Chris Ryan - President & COO

Paul Bloom - Chief Carbon Officer & Chief Innovation Officer

Lindsay Fitzgerald - VP, Government Relations

Conference Call Participants

Peter Gastreich - Water Tower Research

David Boehm - Thomist Capital

Derrick Whitfield - Stifel

Sameer Joshi - H.C. Wainwright

Saumya Jain - UBS

Presentation

Operator

Good day and thank you for standing by. Welcome to the Gevo First Quarter 2024 Earnings Conference Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]. Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Eric Frey, Vice President of Finance and Strategy. Please go ahead.

Eric Frey

Good afternoon, everyone. This is Eric Frey, Vice President of Finance and Strategy. I'm also responsible for Investor Relations here at Gevo. Thanks for joining us to discuss Gevo's first quarter results for the period ended March 31, 2024.

I would like to start by introducing today's participants from the company. With us today are Dr. Patrick Gruber, Chief Executive Officer; and Lynn Smull, Chief Financial Officer. We also have Dr. Chris Ryan, President and Chief Operating Officer; and Dr. Paul Bloom, Chief Carbon Officer and Chief Innovation Officer.

Earlier today, we issued a press release that outlines the topics we plan to discuss. A copy of this press release is available on our website at www.gevo.com .

Please be advised that our remarks today, including answers to your questions, contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These forward-looking statements are subject to risks and uncertainties that could cause actual results to be materially different from those currently anticipated. Those statements include projections about the timing, development, engineering, financing, and construction of our sustainable aviation fuel projects, our recently executed agreements, our renewable natural gas project, and other activities described in our filings with the Securities and Exchange Commission, which are incorporated by reference. We disclaim any obligation to update these forward-looking statements.

In addition, we may provide certain non-GAAP financial information on this call. The relevant definitions and GAAP reconciliations may be found in our earnings release, which can be found on our website at www.gevo.com in the Investor Relations section.

Following the prepared remarks, we'll open the call for questions. I would like to remind everyone that this conference call is open to the media, and we are providing a simultaneous webcast to the public. A replay will be available via the company's Investor Relations page at www.gevo.com .

I'd like to now turn the call over to CEO of Gevo, Dr. Patrick Gruber. Pat?

Patrick Gruber

Thanks, Eric. Good afternoon everyone, and thanks for joining us on our call.

We are filing our form 10-Q today and we ask that you refer to it for more detailed information after this call. Today, I would like to highlight a couple of key items from our filing and also talk about the recent IRA Section 40-B SAF tax credit guidance that came out, which I have to say is very encouraging.

Number one, we began utilizing our previously announced stock repurchase program. Lynn Smull, our Chief Financial Officer, will say more about this when he's on deck here to give comments. Now, my comment on this is that if you look at our cash, cash equivalents, restricted cash, divide that by our number of common shares outstanding, you will see that alone is worth approximately $1 for your share. That is about double where the share price was at various times in the first quarter. Obviously, we think the market has undervalued our shares since in addition to our cash we have a renewable natural gas business with positive standalone adjusted EBITDA, a wholly-owned carbon accounting tech startup that we call Verity, a robust intellectual property portfolio and significant progress toward a well-positioned greenfield alcohol-to-jet project called NZ1 along with a portfolio of other sites that can be developed. We also have our next-generation ethanol to fuel chemical technology called ETO that has made it through the next scale up milestone with LG Chem, which triggers yet another royalty payment.

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Number two, we have revised our expected spend on Net-Zero 1, our Greenfield alcohol-to-jet project. We now expect that we'll have to spend about $90 million to $125 million from January 1 of 2024, that's this year, until we reach the fully financed construction phase of the project, or financial close. That is a reduction from our previous range of $125 million to $175 million. Chris Ryan, our President and Chief Operating Officer will say more about the Net-Zero 1 project a little bit later in this call.

Number three, I'm glad the guidance finally came out on Section 40-B sustainable aviation fuel tax credit under the Inflation Reduction Act. Now, the 40-B rule itself is mostly not germane to our plans since it expires at the end of 2024. But it does set guidance and precedent for the section we do care about 45-Z, which comes into play later in 2025 and beyond. I can say this. The 40-B looks to have been a clear step in the right direction since it recognizes the many carbon intensity reductions we've been talking about. It uses the Argonne GREET model, enshrines it. We've been advocating that for years. It includes CCS and it's moving properly towards taking into account agricultural practices. In the comments from members of the administration, there -- it's clear that there's going to be more work to include more of climate smart ag in 45-Z.

Now, it's interesting to note that under the 40-B rule, it looks like that our proprietary NZ1 plant design, which really is different than anyone else in the world, that even without CCS or ag practices, we'd be well into the money, potentially achieving $1.50 to $1.75 a gallon. That means when you have 60 million gallons of jet fuel coming out of a plant, that's $90 million to $105 million of revenue.

I like the precedent. I want to see it sit. I want to improve it further. It's going to be very interesting and it's pretty exciting. It's good progress. I like what we're seeing. We expect that this guidance will be the launch pad for the sustainable aviation fuel 45-Z tax credit. USDA Secretary Vilsack has noted that he expects 45-Z will expand recognition of climate smart ag practices, our verity carbon solutions, of course is well-positioned to aid that. The 40-B guidance is a good foreshadowing of 45-Z guidance.

The administration agencies have indicated there's more work to be done to refine the rules of 45-Z. But it looks like a good, good starting point. In 45-Z, it would also represent up to $1.75 value per gallon of SAF production. Or that's again potential of $105 million a year, if the carbon intensity is counted as zero using all the tools at our disposal, we have lots of them.

Now, this guidance, as even as it stands, should give confidence to project investors that the government's on the right track. Yes, there's more work to be done. But you know what? We've been bringing additional clarity to the direction of the 45-Z rules. They've indicated it's going to include the climate smart ag. This includes CCS and GREET all very constructive. This should help incentivize investment. It could help bring our projected cost of carbon abatement for this first plant down when we include those credits to potentially be as low as $0 per ton, depending upon a number of factors, that's a big deal. That is, we believe, one of the lowest cost -- if not the lowest cost route of abating carbon.

If you haven't already done so, please take a look at the deep dive presentation on Net-Zero 1and the competitive economics of alcohol to jet that we posted on our Investor Relations website, which goes into more detail. By carefully reviewing those economics, you can see why we have a deep conviction about our proprietary Net-Zero integrated plant designs and their economic impact.

Finally, we will have Paul Bloom, our Chief Carbon Officer, Chief Innovation Officer, to give us an update on Verity, our wholly-owned carbon accounting tech startup.

Now I'll pass it off to Lynn to talk through item number one that I mentioned, the share repurchases and the operations and the rest of the numbers. Lynn?

Lynn Smull

Thank you, Pat.

During Q1 2024, our Northwest Iowa RNG project sold 88,967 MMBtu of RNG. Revenue of $4 million for the quarter included RNG sales of $0.2 million and $3.8 million net proceeds from the sale of the environmental attributes.

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Gevo's Q1 interest income was $4.6 million. Our corporate spend that is G&A was $7.9 million for the quarter, excluding non-cash stock-based compensation of $4.2 million, which is a $1.8 million increase from the first quarter of 2023, mainly due to increased personnel costs.

Debt related to our RNG project remained unchanged at quarter end at $68.2 million after we successfully remarketed the RNG green bonds on April 1 of this year. The remarketed bonds bear interest of 3.875% and are backed by a new letter of credit of $69.9 million, a $0.3 million reduction from the previous bonds letter of credit.

We ended Q1 with a liquidity position of $340.6 million in cash, restricted cash and other liquid investments. The restricted cash portion is $69.9 million and collateralizes our RNG bond letter of credit.

During Q1, we invested and capitalized $17.5 million cash in capital projects comprised of approximately $16.5 million into Net-Zero 1, $0.5 million into our RNG business, and $0.5 million for our fractionation and hydrocarbon skid. In addition to the $16.5 million invested into Net-Zero 1, we advanced $0.6 million into our wind and hydrogen partner for development costs in support of the project, which we expect is reimbursable upon financial close.

We see enormous value in advancing our business thesis, which requires prudent capital deployment to maximize long-term value for our shareholders. For example, we continue to invest in advancing Net-Zero 1 towards financial close when the project would be fully funded for construction and commissioning.

But through our work and learnings in the project development process, we saw the opportunity to save on development capital required to reach close and we, as Pat mentioned, and Chris will further discuss, revised the project spend guidance from January 1, 2024, through close downwards to $90 million to $125 million from the previous guidance of $125 million to $175 million, of which I noted that $17.1 million was spent in Q1 this year, inclusive of wind and hydrogen advances.

We will continue to identify activities and costs that can be deferred until after financial close whenever we can. We believe this is prudent capital deployment, minimizing Net-Zero 1 development spend, while advancing a groundbreaking ATJ plant to put Gevo on the path to meeting market demands for staff.

Another use of capital involved repurchases of our common stock under the previously disclosed stock repurchase program. Since the beginning of the year, we repurchased approximately 5.5 million shares of common stock for approximately $3.7 million.

Now, Chris Ryan, our President and Chief Operating Officer, will talk more about Net-Zero 1. Chris?

Chris Ryan

Thanks, Lynn.

For those of you who don't know me, I'm the Senior Executive at Gevo, directly overseen and responsible for our Net-Zero projects and their deployment. As Pat mentioned earlier, we reduced our expected spend requirement on Net-Zero 1 to reach financial close. As the time horizon to financial close of Net-Zero 1 gets closer, we expect to continually reassess our spend and refine our expectations along the way as appropriate. We're pleased to be able to bring that number down.

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We don't see ourselves needing to spend more than that. Of the Net-Zero 1 spend so far about half is for engineering and about a third is for wind and hydrogen equipment. We expect that spend will be recoverable to us at financial close. This investment in engineering puts us in the position of having detailed designs and intellectual property around the production of low carbon hydrocarbons and sustainable aviation fuel specifically that can be leveraged to save time, money and reduce risk for future projects for Gevo's and anyone who works with us to produce low carbon SAF.

We want to see the CO2 pipeline in South Dakota move forward to keep Lake Preston as our most attractive site for producing sustainable aviation fuel. But we've developed a slate of potential sites that we've prequalified for future Net-Zero projects. But we still hope and expect to see Lake Preston as the home of Net-Zero 1.

Our work on the Department of Energy loan guarantee is going well, but as anyone who has worked on one of these knows, there's a lot of engineering and upfront risk mitigation required much more than a typical balance sheet finance project. Our EPC partners are busy working with us to mitigate execution risk and ensure our contracts fit the DOE's loan guarantee requirements.

Likewise, our off-take partners are working with us to ensure that the contracted demand fits with the requirements of a DOE loan guarantee to finance the construction phase. Lake Preston, the site we own is more than twice the size of the plant's footprint, which leaves plenty of room for future bolt-on projects. It's in a location where many of the surrounding farms in the region already use climate smart agricultural practices, which reduces carbon footprint of the corn feedstock we plan to use there. That in turn increases our carbon abatement.

Our location is also not far from our wholly-owned renewable natural gas business in Northwest Iowa, which gives us the optionality to trim our carbon intensity in our SAF by utilizing that manure-based RNG at our SAF plant. The location has rail access for product distribution. That's not far from the Minneapolis and Chicago airports, and both of those airports are in states with a sustainable aviation fuel tax credit of $1.50 a gallon.

We can also get to the West Coast where there are low carbon fuel markets like in California; we can get into Canada, which also has incentives for low carbon fuels. One of the things we know that's required from our past experience is to have an audit trail of sustainability to prove to customers and policymakers the value of what they're getting from start from the field to finish through the manufacturing chain. That's why we launched Verity a few years ago.

So I'll hand it over to Paul Bloom, our Chief Carbon Officer and Chief Innovation Officer, to share the latest on Verity. Maybe he can start by telling people what a Chief Carbon Officer does. Paul?

Paul Bloom

Thanks, Chris.

So briefly, because I get asked this question sometimes, let me address it. What is the Chief Carbon Officer? I did a fireside chat last year to answer that. For those of you who haven't seen it, I can sum it up that my job is all about maximizing the value in carbon abatement for Gevo and our shareholders throughout the entire supply chain.

To that end, one of my primary responsibilities is leading our wholly-owned carbon accounting tech startup called Verity. In every aspect of our business, from the field to the seat on the aircraft, it is critical that we can accurately measure, report, verify and value carbon abatement with a high level of trust and transparency.

Verity intends to provide Gevo and our customers with the digital tools to make sure that we can count all of the carbon abatement across the entire supply chain, while fully capturing value from voluntary and compliance carbon markets and tax credits, while avoiding double counting. As policies like the Section 40-B SAF tax credit and in the future Section 45-Z credit are developed, we plan to use Verity to help simplify tracking, accounting and auditing in an ever-changing policy landscape.

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We expect the requirements for the data in support of climate claims will gain importance to give confidence to consumers and other stakeholders. By definition, Verity means truth.

In the first quarter of 2024, we continued increasing our Verity customer base at the farm and field level. We initiated the first privately sponsored grow program in the Midwest for a biofuel client. In addition, we signed a letter of intent with the provider of heavy-duty engine technology to develop carbon-counting solutions to demonstrate and drive decarbonization of freight transportation in the United States.

So now, in addition to field to seat tracking for SAF, start thinking about field to fleet tracking for heavy-duty vehicles in hard to abate market sectors. Finally, we continue to make great progress working with farmers of all sizes and from underserved groups through our Gevo farm to flight USDA climate smart commodities grant to implement, track and incentivize a wide variety of agricultural practices at the field level that are intended to reduce emissions and sequester carbon in the soil.

Using the best science, we are meeting farmers where they are with workable solutions that are additive, account for emissions reduction and don't exclude certain practices or require bundling. We've also started making incentive payments to farmers who are adopting and implementing climate smart practices under the program. By using the best tracking and accounting, we want farmers to be rewarded for reducing their carbon footprint and helping foster rural economic development with agriculture done right.

After all, while we are focused on biofuels today, everything has a carbon footprint. We anticipate the great work we are doing with farmers today will benefit all agricultural supply chains with carbon accounting solutions from field to final use for food, feed, fuels, industrial products in the future. We want consumers, taxpayers and policymakers to know that they got something for their money. Verity is all about delivering that transparency and trust.

I'd like to reiterate our previously announced expectation of achieving first revenue at Verity this year. More details will be forthcoming as that happens and as we go-forward. I'm going to leave it there for now, but we can discuss this further if there are any questions in the Q&A.

Now, I'll hand it back over to Pat.

Patrick Gruber

Thanks, Paul.

So you heard Paul just now talk about Verity. It's a pretty exciting opportunity. We're way out ahead in the curve here, having thought about this stuff for years. Chris talked about our Net-Zero 1 project and Lynn discussed our numbers.

I want to close with this. Fundamentally, we see that there's an enormous supply of cost effective carbohydrates and alcohols in the U.S. and globally. We also see enormous demand for drop in low carbon fuels and chemicals that can be derived from alcohols. We therefore see compelling value in connecting the dots between that supply and demand using existing technologies plus our team's innovative cost effective low carbon implementations, which become available to us when we use photosynthesis and fermentation make alcohols and we combine with great catalytic techniques and then we wrap the whole thing with renewable energy. It's powerful.

There are about 190 operating ethanol plants in the U.S. alone. We see that fleet being modified or converted over time to provide carbon abatement, lowering the CI scores and changing what they do or repowering themselves. We're going to help them be at the forefront of that.

In the long-term, the vehicle to provide that carbon abatement may be low carbon ethanol alcohol-to-jet. It could be diesel because we can make that as well or it might be gasoline, or it might be chemicals. All of those things are fair game. Once we establish the commercial business system, we would expect to see that Net-Zero chemicals are enabled. It shouldn't be lost on anyone that any of these products are fair game for us. We'll focus on SAF first. But all of them are fair game. We have proprietary designs, technologies and business systems that can take us in whatever direction the world of carbon abatement heads in the future.

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We believe the business system of Net-Zero 1 sets us up to be at the forefront. It's our integrated plant designs that drive the carbon abatement and the CI numbers so low. Ours is a business system that begins with carbon dioxide being pulled out of the atmosphere. Let's nature do a lot of the work through the photosynthesis of fermentation. It's capturing the carbon and the hydrogen and the electrons to hold those atoms together. They're all needed for making the fuels and chemicals.

The NZ1 system produces food chain ingredients and catalyzes change the climate smart ag while mitigating land use issues. It converts the CO2 to carbohydrates via photosynthesis and the carbohydrates the alcohols via fermentation and then crossing over from the ag and bio world into chemical processing where we convert the alcohol into olefins. Where the olefins are converted into fuels and chemicals in a chemical plant, it's not refining, it's a chemical plant.

It's cost effective. Gevo knows the ag and fermentation side as well as the chemical processing side that puts us in a pretty unique position. Alcohols provide a scalable link between two historically separate industries. We're crossover people. The ag industry and the fossil fuels industry and chemical industry don't normally talk to each other. Well, we bridge that gap and that's what's needed in the world of energy transition to establish new links between previously separate industries.

If we're going to solve these problems, it's got to be a business system approach throughout. And then we have to layer in a Verity to track and trace across the whole business system so no games are played. We like and we focus on these business system solutions that work, that they have potentially low cost, competitive long run against fossil-based products, deliver value for customers, financeable and deliver the growth. And you know what? We're making progress.

All right. Let's open up for questions.

Question-and-Answer Session

Operator

Thank you. At this time, we'll conduct the question-and-answer session. [Operator Instructions].

Our first question comes from the line of Peter Gastreich of Water Tower Research. Your line is now open.

Peter Gastreich

Yes. Hello, thanks very much for the call and congratulations on your results. It's also great to hear regarding the 40-B tax credit because I know your company's been advocating for that for a number of years. So my question here is regarding the Net-Zero 1 and your new cost expectations. You mentioned in the call that you were able to reduce engineering costs and the cost for wind and hydrogen. I'd just like to ask if you could please provide a bit more color around those cost cuts. Thank you very much.

Patrick Gruber

Chris, I think you're in the best position to address that. You want to take that one up?

Chris Ryan

Yes, sure. So what we did is we negotiated with our EPC and our wind and hydrogen equipment providers and basically push back payments until after financial close. At the same time, we're looking for ways to cut costs, not only in the project development, but the execution phase as well. But the majority of it is pushing costs out till after close.

Operator

Thank you. One moment for our next question. Our next question comes from the line of David Boehm of Thomist Capital. Your line is now open.

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David Boehm

Hey guys, thanks for taking the question. Now that you've had a couple days to have the 40-B model in your hand. I'm wondering if you could provide any sort of indicator CI range for what Net-Zero 1 is looking like. Kind of the first model that we've had from the government to really put some numbers around this. So any CI range that you provide on Net-Zero 1 would be really helpful.

Patrick Gruber

Yes, sure. So one of the things that in our design, where we've integrated a plant like this, we focus a lot on lowering CI score. Our plant design itself takes down any ATJ by about 55 to 59 points just from how we do it with our energy, how we integrate and all the rest. That's real different than if I had a plant that was unintegrated. So we're at. We start with a very significant advantage.

Some of the numbers that we see in the IRA bill or the guidance that came out, they're talking about ATJ in the 70 to 80 range, okay? Subtract off, 55 to 60 points straight [Technical Difficulty] CCS or before climate smart ag or anything else. So that means that under the 40-B, we would already hit $1.75. And the question will be, how are they going to treat 45-Z that's going to work slightly differently. There is no cliff where you all of a sudden get a $1.25. It's going to be point by point reduction and getting rewarded. This is way better than I thought we'd be at this point in time. I'm pretty excited by it. And the precedents they're setting are profound. Look, they adopted the GREET model and they did it without messing with it, making it crazy or anything else. All right. They included CCS.

Great. That's awesome. That's what we need to see and have confidence in. And you know what? The climate smart ag stuff from our take on it, it's in the right direction. They're going to make it specific. It plays to our Verity business because we believe in field by field tracking, too. And so we think we're going to win on that front. So I'll be very surprised if we don't wind up around zero by the time this is all said and done. In terms of a CI score, that would get us at that $1.75. So it's pretty darn interesting. It's pretty darn encouraging. I'm fired up. You can tell I'm fired up. I'm psyched.

David Boehm

Yes, I am, too. I mean --

Patrick Gruber

I got Lindsay Fitzgerald here. She's sitting with me and her take -- Lindsay is the one who -- she's the Vice President, Government Relations. Lindsay, you want to comment on this? I mean, it's a…

Lindsay Fitzgerald

Yes, you stole all of my points, but this is a great place to be. This is the first time that we're seeing GREET built-in with very minimal modifications. It's got climate smart ag, again, something that we are trying to recognize and help farmers do. It's being understood. And this is a phenomenal jumping off point for what we want to see under 45-Z. So I'm ecstatic.

Patrick Gruber

Yes, that's good.

David Boehm

Yes, it's a great starting place. I know 45-Z guidance is not fully out yet, but getting Net-Zero makes a ton of sense. And the DOE, correct me if I'm wrong, as part of this working group that did put together the 40-B guidance, correct? And they're also the ones who are going to be judging you guys for the DOE loan, is that correct? It is the same --

Patrick Gruber

It is, it is.

David Boehm

Same organization who's making the rules as the one who's possibly giving you guys this loan?

Patrick Gruber

They're the same big organization, different departments. But that working group, we are -- I know for sure that we're on the mind of all the people making the rules because we're an example of what can be done when it's done right, and we've got the data to prove it. And so that is on their mind. They've told us that directly, and we also provide data for them and the working group -- EPA, the DOE, the administration itself, DOT and others. And so we help. We provide a lot of information for these guys because we're not trying to do it.

We see a lot of companies out here in our space. It's just freebies. They just, hey, it's a gallon -- sell you a gallon of jet fuel. Don't ask me to CI score. That's kind of the approach. No, this is all about selling a jet fuel along with a whole lot of carbon abatement and getting, monetizing that carbon abatement. And you'd be astounded in this marketplace how many people where that concept just doesn't resonate. A lot of our competitors, they don't want to talk about that.

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And so we're -- no, this game is all about how do you drive real carbon value, it's by mitigating it throughout the business system, measuring it, tracking it, proving it. And you know what? That's like the track that they're on. And I can tell you this, too, from having talked with people from both sides of the aisle and politics, when we talk about measuring it, proving that you're getting something for your money that plays to both sides of the aisle. That's a big deal too.

So I'm pretty fired up about, I think these guys are serious and wanting a lasting policy that's rational, has potential to drive improvements in a systematic way without being a freebie giveaway, right? So I like what I'm seeing a lot. I am like seriously fired up. The more I think about it, I'm getting really fired up, right? So I thought it was great. I thought, I'm stunned, actually. It's the right direction. It's better than I was expecting.

David Boehm

And just one more quick one for me, if I can. So appreciate the reduced CapEx spend, appreciate the guidance to in the buyback. So I am looking at $340 million cash called $100 million to get to FID after what you spent in the first quarter and a market cap of $160 million. So I guess my question is, why stop at the $25 million authorization on the buyback? It looks like you could buy back the entire market cap of the company and still have $80 million left. So what's the limit there in terms of what you guys are going to do on the buyback when the valuation makes so much sense, for that matter?

Patrick Gruber

Well, we have a view. There's a couple parts to that [indiscernible] buyback and all those kind of things. And so there we have that to pay attention to. We've been working on doing buybacks on. For my mind, I really want the -- when we're buying stock back, I really want the stock back. So when I'm spending the money, because I think it's too stupidly cheap and we should be buying it back.

And so that we set it at 25 for now and if we use it all, then we'll look at it again and expand it if we need to. We have other needs for our money, too. There is -- we have multiple plants that we can do or things like that, or other opportunities that might be accretive so all that stuff comes into play. And so attention to our cash, manage it carefully. We're going to make the decisions to try to get us to profitability a whole lot sooner than waiting around for NZ1 to get built. And so those are all kinds of things that are on our mind. Lynn, you want to comment on this?

Lynn Smull

Yes. I think the accretive opportunities is the key there. I mean, we do have competing interest for the cash that we have on our balance sheet. If we were to buyback all the shares, we'd be left with not enough capital to develop a business that is, I think everyone can see it's a massive opportunity. And we're as Gevo with alcohol-to-jet technology at the forefront of leadership into delivering carbon abatement in SAF. And without resources, we won't be able to do that. So that there's a trade-off there. And that's why we wouldn't go most likely for the whole shebang of the equity stack at this point.

Patrick Gruber

If we did, it would be more along the lines of the intent of doing it all or something. We'd have to be thinking about that. We're not that -- I think that's premature. And when I look at this, I see a pretty large opportunity here that we're going to have to measure quarter by quarter, pay attention to it and make the decisions appropriately. And I'm keen on getting us; I'm keen on two things. Getting us profitability sooner, getting cash flow streams get EBITDA up. RNG business is doing well. We are going to eventually get the approval down and [Technical Difficulty] contribute.

So we're actually -- I want to get to profitability here sooner rather than later. And I do not want to raise money at the Gevo corporate level. If I can ever again, I'm one of the top shareholders of this company and I do not want to do that. It's real simple. And so I don't want to put us in a position where we're cash short prematurely. So we'll measure it, conserve it, pay attention to it and go.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Derrick Whitfield with Stifel. Your line is now open.

Derrick Whitfield

Good afternoon, Pat and team, and congrats on your legislative accomplishment.

Patrick Gruber

Thank you.

Derrick Whitfield

Perhaps building on Chris' prepared comments, I wanted to open the question on 40-B policy. As I think about the way climate smart agriculture was defined in the SAF credit guidance. How much of your expected corn feedstock surrounding the Lake Preston site would qualify today? And then more broadly, what's your take on the amount of corn feedstock in the Midwest that would qualify today or could qualify by 2027?

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Patrick Gruber

Well, if we read it right, I think that the -- what they -- the way that they described the -- I don't think they're going to -- in 45-Z, I don't think they're going to do bundling. It's going to be specific and discrete and you're going to have to do like low till, no till with a combination to get really low scores. You're going to need combined with some fertilizer that has abatement built into it and then also cover crop, which is all pretty -- that's pretty normal stuff. I think 55% of the acres in the country do that already. So that's answer your question of how much, yes, there's a lot that actually does it.

It's a question of how well. And the trickier thing is you're going to have to measure it. This -- with the bundling that they did in 40-B, it's good to show the direction they said they wanted to be discrete, measurable, auditable, awesome. That's what we want to see. We want to see it field by field. So this is something that's really important point.

I don't like bundling. I like field by field. I like real measurements and real data, because that's how we win the game over the long run. And of course, it also plays what Verity is doing. So that's how we view it. So it's a good jumping off point. And I expect it to move field by field, discrete data, measurable, auditable, certifiable by third parties. That's what has to happen. Well, that's going to take a little work, but by God, we're ahead of the curve.

Derrick Whitfield

Terrific. And then kind of looking forward in time, how do you think carbon will treat CI scoring for your project? Or is this a moot point based on Illinois being the target market?

Patrick Gruber

Well, the target markets are the states that already have programs in place. You have Illinois, you have Oregon, you have California, Washington, you have -- who else? Minnesota's developing one that's not quite finalized.

Lindsay Fitzgerald

New Mexico.

Patrick Gruber

Yes, New Mexico has one. And so, yes, it's going where it's optimal. So the idea that everything has to get shipped to California, wrong paradigm. That's not how it's going to get done. It'll be whatever the market needs, wherever you need enough game to play now that we can put it in different places and it makes sense doing the optimization. You also have Canada.

So it's a different game to play. We expect more states to be doing their own policies over the next few years, and they're going to be focused on that same kind of a thing that we're seeing in New Mexico or Illinois or Minnesota. It'll be stuff like that. So it's not everything has to go to California or you're toast.

Now back to how do you think -- how do I think carbon will adjust to this? I'll tell you, it's interesting. The world is shifting about the perception of crops and the perception around indirect land use and all those things. In this guidance, you'll notice the indirect land use numbers are way down. And of course, I'm a believer they shouldn't exist in the first place. But you know what? They're going the right direction. They're way, way, way down from where they were that's fundamentally important because that's not a real metric of anything that we can tell. It's somewhat artificial, but okay, it's headed the right direction.

Good. I was just at the -- I was just in Turin, Italy, and to sign this joint statement of Turin on biofuels. This is an international thing for the UN, for the G7. And it's talking about using crops. Europe is talking about using crops for feedstocks, for biofuels.

Hello, the world is changing and that's good. It's a fundamental shift. Well, who does it impact? All these people who are weak kneed about taking on real data and using it. And it also is, as we're doing this, I think people are starting to recognize that this idea of its food versus fuel, that's not true. That is just a false paradigm. It's not that.

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It's fact is you can generate the protein for the food chain and generate the raw materials for energy and there's several ways to go about it. And so that's something that's coming into play that people are starting to recognize and understand that it isn't as it's been portrayed. So this is good. It's going to be a shift that takes time, maybe years. But California will adjust as well as more data comes forth. And there are data organizations. So as we get going and develop data, they said they want to see the data as we develop the data from the farms under our climate smart ag programs. Great, we'll show it to them and then we'll have the conversation. And it's persuasive as heck because it goes, flies in the face of what a lot of the environment will say.

Derrick Whitfield

And Pat, if I could just one last question about 40-B, how should we think about the fundamental value of your Verity service with an inherently increasing demand as evidenced by the policy we're actually talking about. Like how do you guys think about the fundamental value of that service and your role in, I guess, creating value throughout the industry by CI scoring?

Patrick Gruber

Yes. Yes, and it's bigger than that. And so I'm going to let Paul address this. Paul, I'd like you to give him a picture of how we see value here around Verity and the different options and parts that come to it.

Paul Bloom

Yes, sure thing, Pat. And thanks for the question, because I think this is really the main reason why we created Verity in the first place was to help people simplify a lot of the carbon accounting that needs to be done. So first and foremost, we can do that by making sure that how we total up the value of the carbon intensity from the bushel that that can then transfer into the carbon intensity that we can calculate at the gallon level, right?

And everything that Chris talked about, whether it's wind energy, renewable natural gas, carbon capture, sequestration, all those things, in addition to the climate smart benefits from agriculture have to be connected together, right? So we're seamlessly connecting that together and making that simplified audit trail happen, so we simplify things for the farmers, we simplify things for a SAF producer like Gevo, and we're doing that same simplification for companies like ethanol producers who are not signed up with Verity.

So we're really bringing that simplification to something that's otherwise really complicated, right? We always say we could do this with a bunch of spreadsheets, but we're doing this with distributed ledger technology, tying it together, making the tracking going forward, seamless so we can substantiate claims and then doing the auditing in reverse quickly. And we'll do that with third-party auditors. But that's really the big benefit that we bring.

And really, the goal is to not leave any carbon on the table where if you're going after compliance markets, voluntary markets or tax credits, you don't want to leave any of that behind. So you got to capture all that value and that's what we can help people do.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Sameer Joshi of H.C. Wainwright. Your line is now open.

Sameer Joshi

Yes. Thanks. Good afternoon. Thanks for taking my questions. Maybe I will take Paul's base and ask about the first revenues expected from Verity later this year. Which area like, what kind of customer is this and what should we expect?

Patrick Gruber

Paul?

Paul Bloom

Yes, sure. And again, I think we've mentioned this a few times. We're obviously Gevo is first and foremost as we start to track what we need for our sustainable aviation fuel. But we realize that the solution that we've created with Verity is the solution that many others need. So today, we've got three ethanol clients signed up. We did sign this letter of intent that we mentioned with an engine technology manufacturer, and then we'll be connecting that supply chain for connecting fuel in the fleet service to make sure that even the end users of the services of fleet can capture their carbon intensity and quantify that.

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So again, with 190 ethanol producers out there, that's a good fit. We're also looking at renewable diesel, biodiesel that biofuels vertical is a big one. But then you think about the carbon tracking needs. So while we're focused on the biofuels vertical now, we're rapidly expanding into adjacencies where we need this help and this carbon tracking and transparency through the value chain, things think food, feed and other industrial products, like what we're talking about with LG Chem.

Sameer Joshi

Understood. Yes. Actually --

Patrick Gruber

Yes. I was going to say. So in terms of the kind of numbers we think about is I asked this question, Paul, like on a weekly basis, actually. And I probably get on his nerves. And it always is coming, and it is coming and it's going to be in the -- it'll be a few million, it's in that kind of a number this gets it going good and it'll grow from there.

And so it's not this year in 2024. I don't expect it to be a giant number. It won't be. But you know what? It's initial sales with real customers, initial partnerships being paid for services and fee, fees for service and that type of thing. And it has huge potential. And what's interesting is it cuts across supply chains too. So we're stay focused on the basics of how do you measure the stuff around the agriculture and the farms and then how transform the products through ethanol plants.

But you know what? You also then have a potential in tracking animal feed for people who want low carbon beef. And so that just comes hand in hand with it. So it's getting to be quite an interesting game to play. And I like the direction from 40-B and what they said out loud about where they're headed with 45-Z is that you're going to be specific. They're talking about field level, audible, traceable, straight through that plays to what we designed Verity for. I like this a lot.

Sameer Joshi

Yes. No, completely agree on that. The potential for Verity enhanced by the 40-B and 45-Z the further opening of that market. On the ATO, what should we expect the next steps to be with LG? I know you will be getting some revenues $0.8 million, I think. But then what are the next steps and how should we see that growing?

Patrick Gruber

Yes. So, I'm going to let Paul to answer that, okay? And Lindsay, if I miss something, you jump in. But it's that next step is to build a bigger pilot plant or a small demo plant. And right now it's about going ahead, getting the bids. That's on LG's dime, not ours. And we get to use the data. We own the electrical property. This is a good deal for us.

And we're aligned strategically in what we want. Remember our process, carbohydrates to alcohols, alcohols to olefins. We have an improved technology for those olefins we can selectively make propylene; we can also make it into fuels. So we get to leverage all that knowledge into our fuels business. So it's a win-win straight away. And what's fascinating about this is the savings here are big. There's not some incremental improvement.

A lot of companies are focused on little improvements. This is a big improvement. And I think in our deep dive deck, it talks about this. It shows some -- it shows what it could mean. So it's pretty exciting. I wish it was ready for primetime now. It's not -- it's going to take a couple of years to get it to be fully vetted, scaled up and commercialized. But you know what? It's pretty cool and it's ours. So that's a lot of fun.

Sameer Joshi

Yes. Yes. No, no, that's true. On the DOE loan, can you just give us a little bit more insight on the level of engagement and maybe the timeline for next milestones just so that we can keep track of it?

Patrick Gruber

Yes. So I can tell you this, the engagement level is high. They're working hard to get this done. The DOE is the government. The government's bureaucratic. They got all kinds of rules to comply with, and they're working their butts off from here I can tell. I think it helped a lot. The question earlier was about do they all talk to each other at the DOE? And I think the answer is yes. I think it helps because they all know that we have the low cost route to make alcohol-to-jet and lowest carbon score, most carbon abatement. And so I think they all know that and can see it and see why, they're rated and transparent with it.

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Again, you can -- this transparent with you guys, too. You can go look at it. It's on our website as to why and how it compares to other people's technologies. So they're working it.

How long does it take? Well, Chris talked about that. We're getting the engineering details figured out, mapped to what can be done on the DOE side, map to what could be done on the customer side adjusting it. And so that stuff should become more clear relatively soon. Chris, I'm going to call upon you in just a minute, and you can comment on that more specifically on that timeline. So give it a thought.

And then when we hope, I hate to project, when we're going to say we're going to get to FI, the loan closed because stuff happens and everyone, well, you said it was going to happen at this time and it didn't. Well, it's not in my control exactly. All we can do is go through the work to go get her done. Chris, you want to comment on the DOE project here?

Chris Ryan

Sure. I just have to be aware of the fact that DOE has explicitly told us that we can't say too much publicly about it. But I will tell you that we've really felt the support from the DOE loan office in terms of them wanting to work with us to get this to work. There's a real sense that this is of strategic importance and that really helps the team between Gevo and all of our counterparties and DOE, as we work through all the details. I think we will be able to say something more definitively over the next few months a milestone -- a key milestone. But we are, as Pat said, high level of engagement, frequent discussions, very detailed due diligence they're doing on us, and everything's moving forward. So that's about all I can say.

Sameer Joshi

Got it. And then just a last one and maybe for Lynn. I know the reduction costs are related to mainly CapEx, that you would do at a later stage. Does it mean that any of the project development costs budgeted for this year are lower? The $5.3 million that was incurred in 1Q? Should we expect a reduction in that, or were you capitalizing those CapEx in a different accounting manner?

Lynn Smull

Are you referring to project development cost in the statement of operations, the income statement?

Sameer Joshi

Yes.

Lynn Smull

Yes.

Sameer Joshi

Recently, the reductions announced --

Lynn Smull

Yes, the reduction -- I think the reductions will probably not hit that line item as much. Those are ongoing costs for a range of things in combination with the G&A. Those two items really cover the operations of the company, inclusive of -- some of that goes to Verity, some of it goes to other project sites to have a slate of opportunities to exploit once we close Net-Zero 1. So I don't see that number coming down substantially, but the capitalized portion will come down to the $90 million to $125 million.

Patrick Gruber

And Sameer, I'm going to add something. So some of you might wonder about what the heck you're working on multiple sites for. I'll tell you why. Customers want multiple sites. They don't just want one off plant. And so part of the deal with them is you got to have a path forward that you can show them that something's real, that you can go ahead and develop multiple sites. And so we do have to spend some effort on that and show people we're managing the cash to keep it low. And we definitely have multiple sites available to us that we could point to and say, no, here's where we would go. Here, there, and over there. We could point to those things. And you got to have that credible story because no one's interested in the one-off, nobody. So that's all part of what we have to do to build market.

Operator

Thank you. One moment for our next question. Our next question comes from the line of Saumya Jain of UBS. Your line is now open.

Saumya Jain

Hi, thanks, guys. I guess I was wondering could you provide some clarity on the net zero one and net zero two timeline as well? And I guess, have you guys considered, have you looked into maybe, like, securing a partner to help financing or any other cost reductions on that regard that you're looking into?

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Patrick Gruber

Yes. So Net-Zero 1 timeframe is, you heard it's about the timeline runs through getting the DOE loan done, raising the equity, getting the financial close. That will happen on its time frame, late this -- probably late this year, early next year in that timeframe, and that will go get built. There's a Net-Zero is got lots of traction. So it's quite interesting.

Net-Zero 2 is, we have several sites that we've targeted. They could be brought on pretty quickly, and all of it is done with partners. So that's how it's going to be done. One of the things that partners want to see is, hey, you all got [Technical Difficulty] where is it? What's the interest rate? How much capital is needed? So that's all part of the plan that we're executing. All of this financing would be done at a project finance level, not at a Gevo level. This is a fundamentally important point for everybody, not at the Gevo level. This is done in a special purpose entity where it's project financing. And so it has to meet project finance requirements, and that's how we approach it.

Saumya Jain

Okay. Got it. So when you say for Net-Zero 1, you say the DOE loan, the financial close, and that would all be probably later this year, early next year, and then how long do you think once it would be construction is fully done and all that?

Patrick Gruber

I hate to predict that. The normal timeframes, you can't win at this, actually. So it's 24 months. 24 months if things go right. And if they don't, it takes a little longer. Now, if I was -- if it was us building off our balance sheet, and I had my own engineers building it without having to have help, I could do it faster I'll bet. But you know what? That's not how this gets done in this modern world. It's disappointing, so, okay, 24 months-ish.

Operator

Thank you. This concludes the question-and-answer session. I'll now like to turn it back to Pat Gruber for closing remarks.

Patrick Gruber

Yes. So this GREET, this 45-Z precedent is a big deal. The amount of work it took. I got to congratulate Lindsay and the team, the rest of my folks, for the amount of effort to put in to try to educate people a year ago, people gave slim odds that we could get GREET model stuffed in there and support it with data and get people tuned into the fact that you really can count carbon. The idea that they're willing to do this, in part, that's from the work that we've done with Verity and all the rest showing, no, in fact, you really can count these things at a field level.

People didn't believe that could be done. We've had to show them it can be done and should be counted. And so that's all part of it. So I feel pretty good about where we're at, and I feel like we're getting a lot of traction. We have traction with our customers; we have traction with the DOE. We've got money. I don't like our stock price at all, but by God, remains good process. So thanks for the support. You have listened [ph] you all have a good afternoon, evening.

Operator

Thank you for your participation to this conference. This does conclude the program. You may now disconnect.

**Load-Date:** May 3, 2024

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