

## **Minn. company grows into one of top U.S. ethanol producers**

STEVE KARNOWSKI

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MINNEAPOLIS (AP) - In late 2004, US BioEnergy Corp. existed only on paper. By last year, it was promoting itself as the country's largest "pure play" ethanol producer. If it stays on track, it will remain one of the country's top ethanol makers for years.

The rapid growth hasn't attracted much attention outside of the industry.

"We have been really spending all of our time kind of working on the business and the pieces of it, and haven't spent a lot of time kind of beating around the press," said Gordon Ommen, the president and chief executive. "Not that we're opposed to it -- we're busy."

Agribusiness conglomerate Archer Daniels Midland Co., of Decatur, Ill., has long been the country's top ethanol producer. US BioEnergy ranked second among publicly traded companies until Brookings, S.D.-based VeraSun Energy Corp. opened a new plant in April.

Inver Grove Heights-based US BioEnergy currently operates plants in Central City, Neb.; Lake Odessa, Mich.; Albert City, Iowa; and Ord, Neb., with a total capacity of 300 million gallons a year.

It also has plants under construction or planned in Hankinson, N.D.; Dyersville, Iowa; Janesville, Minn.; and Marion, S.D., that would boost its capacity to 700 million gallons a year by late 2008. The company also has a 50 percent share in a 100 million gallon plant planned for Grinnell, Iowa, that's been held up by zoning disputes.

A formal groundbreaking ceremony for the Janesville plant is scheduled for Friday. Gov. Tim Pawlenty is scheduled to attend.

US BioEnergy has been growing by building its own plants and acquiring others. It hasn't named other possible acquisition targets. But its latest Form 10-K filing with the Securities and Exchange Commission says it's studying sites near Springfield, Minn.; Guymon, Okla.; and Altamont, Ill., and Ommen said the company is on track toward its goal of reaching 1 billion gallons in capacity by 2009.

The company was co-founded by Ommen and Ron Fagen, chairman and chief executive of Fagen Inc., a Granite Falls construction company that's the country's dominant builder of ethanol plants. They also partnered with CHS Inc. formerly known as Cenex-Harvest States. Ommen, Fagen and CHS each own about 21 percent of US BioEnergy's stock, according to the company's SEC filings.

"It wasn't an accident that we've gotten together with those players," Ommen said. "That was strategic. A lot of people have money, but these players had capital and strategic pieces to the puzzle that we thought were very important."

Ommen said he brought a background in equity capital to the company, while Fagen brought construction expertise and the availability to build plants, while farmer-owned CHS is big in both the grain and energy businesses. US BioEnergy sells all its ethanol through a joint venture with CHS called Provista, and US BioEnergy's headquarters are in rented space at CHS corporate headquarters.

Those alliances help set US BioEnergy apart from its competitors, said Pavel Molchanov, an analyst with Raymond James & Associates.

"They are certainly benefiting from these relationships in both economic and other ways," Molchanov said in an interview.

Chris Shaw, an analyst with UBS Securities, agrees US BioEnergy's partnerships with Fagen and CHS should give it a competitive advantage. In a research report, he wrote that it's important that US BioEnergy has secured building slots with Fagen Inc. through 2009, given that there's a logjam among many ethanol plant builders.

"Fagen plants have an excellent record of being built on schedule and are guaranteed for minimum yields and cost of production," Shaw wrote. "This should allow US BioEnergy to run some of the most efficient plants in the sector."

US BioEnergy's relationship with CHS is another plus, he wrote, because of the grain and energy cooperative's extensive connections in those markets.

"We do not see any other player short of ADM having these kinds of beneficial relationships," he wrote.

US BioEnergy went public last December. Its shares debuted on the Nasdaq at \$14, moving as high as \$17.72 in January and trading lately around \$12. Like other ethanol producers, its share price has followed the ups and downs of the oil stocks. US BioEnergy reported a profit of \$5.2 million on revenue of \$132.2 million in the first quarter of 2007.

It used to be that except for agribusiness conglomerate Archer Daniels Midland Co., the ethanol industry was made up almost entirely of farmer-owned cooperatives and small, independent producers. While most of the country's ethanol still comes from small producers, that's been changing as publicly traded companies like US BioEnergy, VeraSun Energy Corp. and Aventine Renewable Energy Holdings Inc. have gotten into the game.

Ommen recalled that a standalone 40 million gallon plant was considered a big operation just a few years ago. Most of US BioEnergy's current and planned plants have 100 million gallon capacities. And Ommen said his company is scanning the horizon for potential acquisition targets.

"The world has changed a lot in the ethanol space in the last three or four years," he said. "My guess is that 36 months from now it's going to look a lot different."