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Darling Ingredients, Inc. (DAR)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. Thank you for joining us and welcome to the Darling Ingredients Incorporated Conference Call to Discuss the Second Quarter 2026 Financial Results. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I will now hand the conference over to Ms. Suann Guthrie, Senior Vice President of Investor Relations. Please go ahead.

Suann Guthrie

Senior Vice President-Investor Relations & Global Affairs, Darling Ingredients, Inc.

Thank you for joining the Darling Ingredients' second quarter 2026 earnings call. Here with me today are Mr. Randall C. Stuewe, Chairman and Chief Executive Officer; and Mr. Bob Day, Chief Financial Officer.

Our second quarter 2026 earnings news release and slide presentation are available on the investor page of our corporate website, and it will be joined by a transcript of this call once it is available. You can also find reconciliations and disclosures with respect to non-GAAP financial measures in our earnings news release and slide presentation.

During this call, we'll be making forward-looking statements, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's press release and the comments made during this conference call and in the Risk Factors sections of our Form 10-K, 10-Q and other reported filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statement.

Now, I will hand the call over to Randy.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Thanks, Suann. Good morning, everyone, and thank you for joining us today. Before we get started, I want to thank everyone who participated in our Investor Day in May. During that event, we highlighted the global foundation we have built, the transformation of our business, and the opportunities we see to accelerate returns to our shareholders. We also outlined how our business is positioned to create consistent cash generation regardless of market condition and public policy environments.

When we provided our outlook for the second quarter in April, we based that guidance on our March performance. As the second quarter progressed, finished product markets strengthened considerably, fat and protein prices rallied, and several trade-related developments created a more favorable operating environment than we anticipated at that time. That, combined with our strong operational excellence and margin management programs, ultimately drove our results.

During the quarter, we received $280 million in cash distributions from Diamond Green Diesel. We used that cash to decrease our debt by $223 million, close on the purchase of the Potenze plants in Brazil, and repurchased $73 million of stock. Darling's core ingredients business really delivered this quarter with improved global operations, margin expansion, and focused commercial execution.

Combined adjusted EBITDA for the second quarter was approximately $742 million, including about $353 million from our Global Ingredients business and $389 million from Diamond Green Diesel. Our Feed ingredients segment delivered improved results as fat prices rallied and sustained momentum in the quarter, fueled by robust demand from the biofuel sector. We saw protein value strengthen due to tightening global fish meal supplies and increased poultry production in the United States.

We continued our focus on operational efficiency, commercial optimization, price risk management, and contract management, which contributed to improved gross margins. Also in the quarter, we closed on the acquisition of three rendering facilities for the Potenze group in Brazil. These are great assets and great locations, which we believe will be immediately accretive.

Now, turning to the Food segment. Collagen sales have improved year-over-year, reflecting not only increased customer demand, but also new applications for collagen across food, nutrition, and the health space. As prices of whey continue to increase, companies are turning to collagen as a protein with benefits to complement their whey products. We remain very excited about our next high glucose control product, which continues to have repeat sales and also is now being sold in Asia.

Turning to the Fuel segment. Diamond Green Diesel delivered outstanding operational and financial performance during the quarter, reinforcing its position as the leading renewable diesel producer in the world. During the second quarter, we produced over 1.3 million metric tons of renewable fuel, maintaining DGD's position as the largest producer of advanced biofuels globally.

Also in the quarter, we sold approximately 350 million gallons at $2.23 EBITDA per gallon, delivering $389.2 million of EBITDA to Darling. This includes a favorable IEEPA tariff recovery of approximately $51 million at the entity level. Our non-DGD green energy businesses also performed very well due to the increased energy prices in Europe.

Now, with that, I'd like to turn the call over to Bob, take us through some financials, then I'll come back and talk about the third quarter and what we see coming forward. Bob?

Robert Day

Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

Thank you, Randy. Good morning, everyone. As Randy said, we significantly increased earnings, cash generation, and balance sheet strength this quarter. Net income was $387 million or $2.41 per GAAP diluted share, compared to $13 million or $0.08 per GAAP diluted share in the second quarter last year.

For the first six months of 2026, net income was $521.6 million or $3.24 per GAAP diluted share, compared to a net loss of $13.5 million or negative $0.09 per GAAP diluted share a year ago. Net sales in the second quarter were $1.7 billion, compared to $1.5 billion for the second quarter last year, and $3.3 billion for the first six months of 2026 versus $2.9 billion for the same period a year ago. Second quarter combined adjusted EBITDA was $742 million, compared to $250 million in second quarter 2025.

For the first six months of 2026, combined adjusted EBITDA exceeded $1.1 billion versus slightly under $450 million a year ago, reflecting strong contributions from both our Global Ingredients business and Diamond Green Diesel. The earnings power of our global model demonstrated the value added from some of our more recent acquisitions, such as Valley Proteins, Gelnex, and FASA. Overall, core ingredients EBITDA increased to $353 million in the quarter, up significantly from the prior year at $207 million and last quarter $256 million.

During Investor Day last May, we highlighted two important advantages about the core ingredients business that have gained meaningful traction this year. The first is measured by the operational metric implied return on replacement value, included as page 15 in this quarter's slide deck. This framework illustrates how we create value by increasing cash generated from our existing asset base.

Most recently through negotiation of contract terms that allow us to keep pace with construction cost inflation, commercial optimization across our global network, and a more targeted approach to managing price risk. Together, these actions support the opportunity we previously outlined to generate an additional $150 million to $300 million in adjusted EBITDA over the following three years. More importantly, this framework shows how Darling can increase earnings and cash generation from its core business consistently over time. Our results so far in 2026 demonstrate real progress toward that objective.

The second advantage is our ability to increase EBITDA and our operating metric implied net cash from Rousselot's existing fixed asset infrastructure. As this business represents the majority of our Food segment, Rousselot provides significant opportunity to enhance earnings and cash flow through product mix optimization, as illustrated on page 16 of this quarter's slide deck.

As we continue to increase our mix of collagen and collagen with targeted health benefits like Nextida, we're using the same factories and infrastructure to produce products with meaningfully higher margins. In today's market environment, collagen generates roughly 2.5 to 3 times the margin of gelatin, and targeted ingredients can generate 7 to 11 times. This gives us a powerful built-in earnings lever, positioning the business to consistently grow EBITDA and net cash generation on an as-is basis, even before factoring in future growth initiatives.

Diamond Green Diesel delivered an outstanding quarter both operationally and financially. Darling's share of DGD EBITDA for the quarter was $389 million, compared to $43 million in the second quarter of 2025, supported by strong production of 356 million gallons, favorable market conditions, and the benefit of $51 million in IEEPA tariff recoveries at the entity level.

More importantly, DGD generated substantial cash. During the quarter, Darling received approximately $280 million in cash from DGD, roughly $211 million as dividends and $69 million from 2025 production tax credit sales. This allowed us to reduce net debt by over $220 million during the quarter. And as a result, our leverage ratio improved to approximately 2.3 times at quarter end, compared to 2.9 times at the end of last year. This debt reduction, however, doesn't illustrate the true impact of second quarter's performance and how it sets up our balance sheet as we move through 2026.

Specifically, we had some cash demands over the second quarter that prevented us from paying down more debt, but we expect most or all of that will be offset in the second half of 2026. Examples are the acquisition of the Potenze rendering assets in Brazil for around $122 million and $73 million in stock buybacks, and DGD's current assets minus current liabilities have increased substantially from the beginning of the year, mainly resulting from a strategic build of feedstock inventories to support high run rates and operational and commercial flexibility.

With that context, lowering net debt by over $220 million in the second quarter was a great achievement. Meanwhile, we expect to offset most of the acquisition and stock buyback costs with sales of our trap and casings businesses. Subsequent to quarter end, on July 22, we closed on the sale of the majority of our trap business for approximately $90 million. We also signed an agreement to sell our European casings business, which we expect will close by the end of 2026.

Regarding DGD working capital, we anticipate a significant portion of this will flow through as cash by the end of 2026 as inventories naturally draw down during that time. We also expect the majority of this year's production tax credits will be sold and paid for over the last half of 2026, and we believe the core ingredients business will continue to perform at a high level and generate meaningful cash.

With all that, we believe our net debt will be very close to or below $3 billion by the end of 2026, and our leverage ratio well below 2 times. We recorded an effective tax rate of approximately 22% during the quarter. Excluding the impact of production tax credits and certain discrete items, our tax rate was approximately 27%. For the full year, we continue to expect an effective tax rate of roughly 25%.

With that, I will turn the call back over to Randy.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Thanks, Bob. As we shared at Investor Day, our global scale enables us to generate cash across down, mid, and even upcycle environments. We've built an essential business with a global footprint that is difficult to replicate, creating advantages that continue to strengthen. As Bob said, our debt net leverage continues to improve, and we're on target to be below $3 billion in debt by year-end with a leverage ratio of well below 2 times. This is a true inflection point for our company, and will create multiple opportunities for the future.

We remain focused on operational excellence, disciplined capital allocation, and returning capital to shareholders. As we look ahead, we continue to see strong momentum in the third quarter and remain confident in the outlook for the balance of 2026 and even 2027. While the current market conditions are supportive, the fundamentals underpinning our business give us confidence beyond this year. Importantly, we do not view the progress we have seen in this quarter as a one-time event. The opportunities we outlined at Investor Day remain well ahead of us.

In Feed, we continue to see opportunities through contract management, commercial optimization, and price risk management. In Food, we continue to improve our product mix towards higher value collagen and targeted health ingredient applications. Combined with our ongoing portfolio optimization and balance sheet improvement, we believe the business is positioned to continue increasing earnings and cash generations over the next several years.

The strategic actions we have taken to strengthen the business, improve margins, and simplify the portfolio position is to create value well beyond the current cycle. For the third quarter, we expect core ingredients EBITDA to be between $325 million and $340 million. Included in the second quarter results were approximately $18 million in the net recovery of IEEPA tariffs for the Rousselot business. Excluding that benefit, our third quarter outlook implies underlying performance that is generally consistent with the strong earnings level we delivered in the second quarter.

We continue to see support from growing global poultry production, strong global demand for our proteins and specialty products, and robust demand for our low-carbon fuels. On the DGD front, margins remain attractive, and we intend to produce approximately 335 million gallons in the third quarter.

With that, let's go ahead and open it up to questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Heather Jones with Heather Jones Research. Heather, your line is now open.

Heather Jones
Analyst, Heather Jones Research, LLC

Q

Good morning. Thanks for the question and congratulations on the quarter. I guess I wanted to start with protein meals. Randy, I think you mentioned something about exports. I just noticed a rally throughout the quarter and particularly in the latter part of the quarter, just strengthened pretty dramatically. So, just wondering if you could flesh out those comments about what specific changes. Was it related all to the tariffs and have you seen that strength continue into Q3?

Randall C. Stuewe
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

A

Fish meal? Yeah, yeah. Heather, this is Randy and Bob, and Carlos can comment if they want to. But really, you're in a very strong protein market globally, and it's ultimately driven, at least on the chicken side, by the tightness in the fish meal off of the Super El Niño or whatever you want to call it. We're just seeing very, very strong demand on all continents for proteins. We just see that continuing through the balance of the year. I don't see anything interrupting it.

Heather Jones
Analyst, Heather Jones Research, LLC

Q

Okay. Perfect. And then I wanted to pivot to Diamond Green, and just we've seen a lot of nervousness in the RIN market over the last few days, and it seems to be related to a lot of concerns related to 2025 SREs. And just was wondering, what are you alls expectations as to timing on when we get that result, and like what are your thoughts as to whether we get a number that's higher than what's outlined in the finalized RVO?

Robert Day
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

A

Yeah. Thanks, Heather. This is Bob. We're not expecting any meaningful change in SREs and SRE volumes that would impact the overall RIN S&D. I think our view is the worst thing that the administration could do right now is negatively impact supply. This policy, which was only implemented April 1, has essentially achieved or it's achieving the objectives of the EPA and the administration as a whole. It's leading to higher prices at the farm gate, which is what they wanted. And the industry responded within the third month of its implementation by making enough product that shows it can meet the mandate. So, we're just – we're not expecting a significant change that would overall impact this picture. And we think RIN tightness is going to continue, and that's what's required in order to maintain the kind of production that we saw in June and what we need to meet the mandate.

Heather Jones
Analyst, Heather Jones Research, LLC

Q

Thanks so much for that color. Have a good day.

Operator: Your next question comes from the line of Manav Gupta with UBS. Manav, your line is now open.

Manav Gupta
Analyst, UBS Securities LLC
Q

Morning, team. Exceptionally strong quarter. Want to congratulate everybody on it. My first question is on the overall renewable diesel macro. I think world is short diesel. You have seen a strong support from the government on RVO. The way we think about renewable diesel margins and mid-cycle margins, should we think of a higher mid-cycle given all the dynamics that are playing on, including global distillate inventory depletion? And would that mean higher sustained earnings from your renewable diesel business for a longer period of time? If you could talk a little bit about that.

Robert Day
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.
A

Yeah. Thanks, Manav. This is Bob. So, I just want to be clear that there is a page in our deck where we talk about our business as a whole, downcycle, mid-cycle and upcycle environments, and the mid-cycle makes reference to $0.92 a gallon. And that's really just an approximate average of what the price per gallon was from 2021 to 2025. It's not a suggestion about what a future mid-cycle margin would be.

I think to answer your question, first, I would just point out that the BOHO spread is tighter than we've seen in a long time, which suggests that, as you point out, conventional fuel prices, conventional DO prices – diesel prices globally are really allowing renewables to be more competitive from a cost standpoint than we've seen in a long time. And if you look at spot margins today and the RVO and the mandate, what we have through 2027, it certainly suggests an attractive margin environment for the foreseeable future, and that's what we expect.

Manav Gupta
Analyst, UBS Securities LLC
Q

Perfect. Thank you, Bob. Probably the next one also for you. Congrats on lowering – bringing the leverage down, I think from 3.2 times to like 2.3 times in a single quarter. At the Analyst Day in April, you had said you want to be below 2 times. Most likely, you will be below 2 times by the end of the third quarter and probably you could continue to lower it. My thought process here is, what level would you be comfortable getting to and probably building a buffer where, in addition to the share repurchase that you did this quarter, you could also possibly contemplate a dividend just to reward your shareholders?

Robert Day
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.
A

Yeah. Thanks, Manav. So, yeah, you're right. Our objective is to get down below $3 billion of debt. I think, given the EBITDA run rate that we're on right now, that would comfortably put us below 2 times leverage. I think what we're more focused on is total debt level because we want to be in a comfortable leverage position even in a mid-cycle environment. And so, that's what we're striving for. We did highlight at Investor Day that once we achieve our goals in terms of total debt level, then we can evaluate a different type of capital strategy that potentially could include shareholder value initiatives that we really haven't considered as much in the past, but we now are able to do since we've built out the global network that we have and we have more stable earnings than what we've had in the past.

Manav Gupta
Analyst, UBS Securities LLC
Q

Thank you and congrats on a great quarter.

Robert Day
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.
A

Thank you.

Operator: Your next question comes from the line of Derrick Whitfield with Texas Capital. Derrick, your line is now open.

Derrick Whitfield
Analyst, Texas Capital Securities
Q

Thank you. Good morning, guys, and congrats on a banner quarter. Wanted to start...

Suann Guthrie
Senior Vice President-Investor Relations & Global Affairs, Darling Ingredients, Inc.
A

Thank you.

Derrick Whitfield
Analyst, Texas Capital Securities
Q

Wanted to start with DGD. Given the strength of really US, Canada and international markets, how are you guys thinking about the allocation of RD and SAF volumes across those markets to optimize margins?

Robert Day
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.
A

Yeah. Thanks, Derrick. This is Bob. I think what you're alluding to is margin attractiveness in RD relative to SAF that's better than what we had seen previously. That really depends on which market you're selling into. I think RD, RD is more attractive relative to SAF more so in Europe than what we have in the United States for our existing sales book. As everyone knows, Europe is a mandated market, United States is a voluntary market.

In the mandated market, those prices can move up and down depending on supply and demand, and we're not seeing a huge advantage in SAF in that market. But in the US, in our voluntary market, certainly with sales on our books, those SAF sales command a premium over RD and continue to earn a more attractive margin than RD. So, we're certainly going to take advantage of that and we expect to produce SAF at a similar rate to what we've been doing over the past 12 to 18 months.

Derrick Whitfield
Analyst, Texas Capital Securities
Q

Great. And then on my follow-up, just with the capital increase for 2026, so you guys did initially message that during 1Q earnings, but maybe could you speak to some of the investments and the expected uplift in business results associated with the investments?

Robert Day
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.
A

Yeah. So, I'm not sure I totally understood the question, Derrick. So, are you talking about investments from 2022 and 2023 or more recently?

Derrick Whitfield
Analyst, Texas Capital Securities

Q

More recently. So, with the increase in 2026 capital, you guys initially messaged that during 1Q. Could you maybe speak to some of the investments you guys are undertaking in the next cycle with the business results?

Robert Day
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

A

Yeah. Okay. So, yeah. I think when we started the year, we estimated that maintenance CapEx would be around $400 million. We revised that slightly higher to $450 million. That's really just a function of increased cash flow into the business and identifying opportunities to just increase debottleneck in certain locations, slightly increase capacity, improve efficiencies. I wouldn't say it's a material change to our CapEx plan for the year, but in a year like this, we're certainly going to take advantage of the opportunity to do a little bit more and just increase efficiencies.

Randall C. Stuewe
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

A

I mean, Derrick, this is Randy. Clearly in 2024 and 2025, we had to pull back the reins on the capital spend. And you never want to put these factories into a run-to-fail mode. And so, a little bit of make-up capital in here, and then ultimately, we're – the poultry expansion in the Southeast and the United States, we're running the Valley system wide open full now, and we've been able to expand it and optimize it, and we're getting the earnings out of it, and that's the inflection point that's very different than last year.

Derrick Whitfield
Analyst, Texas Capital Securities

Q

Makes complete sense. Great quarter, guys.

Randall C. Stuewe
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

A

Thank you.

Operator: Your next question comes from the line of Andrew Strelzik with BMO Capital Markets. Andrew, your line is now open.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Hey. Good morning. Thanks for taking the question. And I apologize, I dropped for a minute accidentally. So, I apologize if I ask something that's already been asked. But you talked about your enthusiasm for the balance of the year in 2027, and obviously we saw the base business guidance for 3Q. But with the volatility in market fundamentals recently and coming off the strength in 2Q, can you frame kind of current spot run rate margin structures relative to the high, medium, low framework from the Investor Day? Are we kind of still at the high scenario that you had talked about previously? Are we above? How do you see that kind of on a go forward?

Randall C. Stuewe
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

A

Yeah. I've got to sit in the seat quite a while here, and if you live long enough in this business, you see some of these cycles. And ultimately, we don't – we're very enthusiastic through the end of 2026 and even 2027. And what we're saying is the core ingredient business, the acquisitions we made in the past have been rationalized, optimized. We've done some divestitures. And so, the core ingredients business is going to roll at that $325 million, $340 million level. That number, it was very simple. For us, that was just basically, once again, the June run rate and multiplied times 13 for the quarter. And we see nothing – the third quarter typically can be a little challenging because of weather, summer weather, it's hot here and hot in Europe. But ultimately, the strong protein, strong fat markets continue to go.

DGD, we feel very positive about the margin environment that's out there. Yeah. Yes, heating oil is up one day. Yes, RINs are down one day. The crushing industry and the soy side is running wide open full, but yet soybean stocks come down – so, soybean oil. So, you can't exactly get bearish on fats and oils. So, we feel just really, really good about it. As we said in our Investor Day, where we're at today is where we wanted to be a couple of years ago, taking big money off of the balance sheet such that we have the flexibility to have Darling looked at as a different company. We have a very, very prestigious place in the world in our business, and I think it's really delivering now. It's set up to continue to grow organically and through de-bottlenecking, as Bob's words, in different places.

And I just see that – I just see it as a really positive outcome as we go into 2027. I think our comments that we don't see the risk in the RVO that maybe some in the market want to impute out there. It's doing what it's supposed to do. In second quarter, we produced the gallons that it's needed to fulfill it, and that was the naysayers that were out there. So, I think the environment is very solid. Demand in the world is very robust for renewables with the higher oil prices. And so, Bob, you want to add anything before I...

Robert Day — A
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

Look, I think the last thing I would say is, if you look at those margin environments, if we talk about down, mid, and upcycle environments, yeah, we're not in a mid-cycle environment right now.

Randall C. Stuewe — A
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

No.

Robert Day — A
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

It's if you look at spot margins, it's more towards that upcycle as we sit here today. And as Randy said, we're optimistic about what that's going to continue to look like here over the next few quarters.

Andrew Strelzik — Q
Analyst, BMO Capital Markets Corp.

Okay. Great. That's helpful. And maybe to your point about the evolution of the balance sheet, it feels like given the results and the outlook, you're going to be to your targets and through your targets sooner rather than later. So, can you just – obviously, we saw the buyback in the quarter. Can you kind of just give us your updated thoughts on capital allocation once you do get to those target levels? And is that kind of a tell on which way you're leaning? Just curious for some updated thoughts around capital allocation. Thanks.

Randall C. Stuewe
Chairman & Chief Executive Officer, Darling Ingredients, Inc.
A

Yeah. It's – number one, it's above my pay grade, so we'll go there, but it allows discussion in the boardroom to go where we've wanted to go. And that is making sure that people view a yield under Darling not as a commodity company, but one that can deliver a dividend and share repurchases on a consistent basis. Bob laid out the low, the mid, and the upcycle environments, and it gives enough cash flow to do what we want to do going forward. So, we've stayed laser-focused on bringing the debt down to below $3 billion, getting the leverage ratio below 2 times, put a capital policy or a max debt policy in at 2.5 times, and we're able to do everything at that time.

So, like I said, this was our dream two years ago, and then we hit a pretty solid and difficult cycle. We didn't see the cycle coming on in DGD. It came. We lived through it. We paid down debt while we were there. We maintained the plants and very happy with the acquisitions we made during the time. And so, we're in a different setting point now than where we've ever been. And so, that's where our enthusiasm is. And it gives me the chance then to have the discussion in the boardroom about how to transform Darling going forward.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

Great. Thank you very much.

Operator: Your next question comes from the line of Ben Kallo with Baird. Ben, your line is now open.

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.
Q

Hey. Good morning, guys, and congratulations on all the work. Maybe if you guys could talk a little bit about the supply side for RD, if you guys see any capacity coming online or new capacity intended to be built. I think you guys did a good job talking about the demand side, but just if you could touch on the supply side, please.

Robert Day
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.
A

Yeah. Thanks, Ben. I think we're impressed by what the industry was able to achieve in June, and it's the classic, the best cure for high prices are high prices in these type of markets. What we're seeing is nameplate capacity is a number, and most companies are able to overachieve that when the operating environment is positive, and that's what we're seeing. We're not necessarily seeing a lot of new capital for increased capacity in renewable diesel, at least in the United States. I think if we were to get Set 3 that provides a longer-term outlook for the RVO and mandated volumes, then we would likely see that. But what we do see is that with existing capacity and performing capabilities, that we're able to make enough product as an industry to meet the – and satisfy the mandate.

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.
Q

Great. Thank you. Just on the Nextida side, you mentioned that you're starting sales in China, I believe. Could you just talk about that market and the opportunity there and then just if there's any kind of – if it's more competitive there, if there's other kind of products that you're competing against and how it's different than the US and European markets. Thank you.

Randall C. Stuewe
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

A

Yeah. As we look around the world, Ben, and it's great to have you back as a believer here, ultimately, we're looking at a transformation of the gelatin to the collagen business that's out there. Gelatin was pretty much commoditized. It could make a euro per kilogram kind of market-to-market. And then as Bob said, hydrolyzed collagen, which has way more applications in the universe, has 2.5 times, 3 times. And so, we transitioned our extraction capacity to the hydrolyzed collagen market and we've seen that take off in Asia. That kind of going to – was slow to grow in both Europe and Asia, got shut down in the COVID era.

So, we've come out of that now. Asia is rapidly growing. We've approved projects for a spray dryer to make collagen now in Kaiping, China, and we're going to add extraction and spray drying capacity in Paraguay. And so, the marketplace there is growing in the mid to upper single digits right now. And then ultimately, the – our Nextida portfolio is kind of the 2.0 of the hydrolyzed collagen for a specialty health and wellness application. We continue to see reorders now in the Nextida glucose control. I mean, it's really fascinating as you watch the – some of the side effects of the GLP-1 drugs out there that are now becoming in the narrative in the media. This protein product has very similar applications without those side effects as we're aware today.

Very shortly here, you're going to see a launch and a new naming of our Nextida brain product. We believe, after the clinical trials, that it has some pretty incredible health benefits going forward. So, the portfolio is poised. And so, the Nextida line isn't a one-year deal. It's a five-year build, maybe longer, because there's another half dozen products underneath it. But we see that space as something where it's very attractive to us. We're a large global player in it and the margin structure is just going to continue to improve over time for us.

Benjamin Joseph Kallo
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thank you, guys.

Operator: Your next question comes from the line of Conor Fitzpatrick with Bank of America. Conor, your line is now open.

Conor Fitzpatrick
Analyst, BofA Securities, Inc.

Q

Good morning, everybody. Thanks for taking my question. So, it has been apparent that the RINs market has been pretty difficult to balance, which is a good problem for producers of RINs to have. I wanted to just get a kind of check on what's going on with domestic utilization and where net imports could progress. It looks like biodiesel utilization in the United States has been rising. That's been kind of late as a result of probably ramping up difficulties, rehiring staffing, also methanol and input costs. So, I was wondering how far from max biodiesel utilization are we in the United States, and what is the opportunity or possibility that net exports of biodiesel and renewable diesel out of the US could flip and supply the market, just to make sure the RINs market is balanced.

Robert Day
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.

A

Yeah. Thanks, Conor. So, I think as far as our – how far away are we from max biodiesel production in the United States? We're probably getting somewhat close to that. There's certainly room for more imports. But overall, I think we're running at a very high rate overall with biodiesel and renewable diesel in the United States. Imports have a longer supply chain. They take longer to show up into the market. We expect that we'll see more imports July and beyond, and that's really important to meeting the overall mandate.

In order for exports to slow down, we would need to see margins in the United States increase from where they are today. But ultimately, given the run rate we saw in June, what we expect to see from a slight increase in imports, we're in a position right now where we're probably going to be able to meet the mandate, but margins have to remain strong in order for that to happen.

Conor Fitzpatrick
Analyst, BofA Securities, Inc.

Q

Makes sense. And then have noticed an increase in animal-based protein, meat and bone meal protein value per ton surging relative to soybean meal and other vegetable-based protein meals. So, it looks like as an animal rendering-focused company, Darling is benefiting from some advantages versus more agriculturally-focused, vegetable-focused companies. And clearly, that's a big benefit to the Feed ingredient segment. Maybe you could just comment on the drivers of the relative value of different protein meals, how that sets up the cycle for Feed ingredients going forward.

Randall C. Stuewe
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

A

Yeah. Conor, this is Randy. Clearly – thank you for differentiating us from the crushers and the ag services businesses. We have a very unique position in the world, and ultimately, we provide fats to the fuel business, and then all the proteins end up in three different segments, really. You end up in aquaculture, and aquaculture is very strong in the world right now. And with the tightness in fish meal, it's adding value to our low ash poultry meal products.

The pet food business, while it had a really big upcycle during the COVID era when you needed a new friend at home, little, it loosened up a little bit and the prices moved up at the high-end pet foods, and ultimately some of the private labels are taking a little share back now. But globally, pet food demand remains very, very strong and continues to grow. And then the balance of it would be the commodity protein side of the mixed species products, and that's really reflective and being consumed in the strong global protein business. Everybody knows red meat is expensive. And so, ultimately, the poultry is growing very rapidly, especially in the US. Strong in Canada, strong in Europe, Poland predominantly, and strong in China, and the other APAC countries. So, it's really a pretty balanced thing right now for us around the world as we provide protein and energy sources.

Conor Fitzpatrick
Analyst, BofA Securities, Inc.

Q

Thanks, everybody.

Operator: Your next question comes from the line of Matthew Blair with TPH. Matthew, your line is now open.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities LLC

Q

Thanks, good morning, congrats on the strong results. You mentioned some of the positive trends in your Food segment. I think there was a comment that you're using collagen in whey protein applications. Could you just expand a little bit more on this? Why is this happening and is this temporary or do you think it's a structural shift?

Robert Day
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.
A

Yeah. Thank you, Matthew. No, we've – look, today we're able to compete on a cost basis with whey protein. And I think what the market has realized is that collagen can act as a replacement for that, and we're finding a home there. As we move forward, given the overall demand for proteins in food products, we expect this tightness to continue and we're finding a nice spot there that is a little bit different from where our core demand had exist prior to that.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities LLC
Q

Sounds good. And then have you applied for any additional tariff recovery? Like should we expect anything coming in Q3 or Q4 of this year?

Robert Day
Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.
A

Yeah. We have. The tariff recoveries are classified into different categories based on likelihood of recapture. And so, the ones that we have recognized are ones that we've largely been paid for. And then there are others that are remaining that we will recognize later if it gets to the point where the probability meets that standard.

Matthew Blair
Analyst, Tudor, Pickering, Holt & Co. Securities LLC
Q

Sounds good. Thank you.

Operator: Your next question comes from the line of Jason Gabelman with TD. Jason, your line is now open.

Jason Gabelman
Analyst, TD Cowen
Q

Good morning. Thanks for taking my questions. You highlighted another divestment, I believe, this quarter. Are there more non-core assets you could sell in the business? And conversely, as net debt approaches your target levels, will you declare the kind of M&A holiday over and look to inorganically expand the business?

Randall C. Stuewe
Chairman & Chief Executive Officer, Darling Ingredients, Inc.
A

Yeah, Jason. We continue, and as always, have looked at the portfolio. And yeah, there's a couple more out there that can qualify there if the numbers are met that we want. The M&A holiday, yeah, it's kind of a fun word. We have a list globally of multiple expansions. And as we've done historically, it's really once you build the platform, the network, the model here, you now look at where you can minimize freight, maximize margins, and help your customers and your suppliers. And so, we've got a list of expansions around the world that need to happen over the next three years, but what we want to make sure we're telegraphing, we're writing in crayon and big chief pad here is that we're not out there looking for that next big deal.

We're out here trying to make sure that we optimize and manage the Darling model that we've been trying to build for the last 20 years. We declare that we're there. And ultimately, we'll add businesses that make sense that are accretive. But end of the day, I would say over the next three to five years, it's more organic and growth and expansion for collagen and some rendering. We're out of capacity on rendering in Brazil today. We need to look at that. The chicken industry, as you know, in the US, was approved to speed up their line speeds. That's going to push us at all of our factories. And so, we've got to be ready to go and anticipate with our suppliers, and I think that provides some really fundamental and strong growth for the next three to five years.

Jason Gabelman
Analyst, TD Cowen

Q

Great. Thanks for that. And my follow-up is just on the DGD results in the quarter. The margin was extremely strong. I'm wondering if there were any kind of abnormal benefits in the quarter or was some of the strength due to maybe selling to markets outside of California like the Pacific Northwest, British Columbia, Europe. Just any more color on what drove that really strong number. Thanks.

Randall C. Stuewe
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

A

Yeah. So, we announced the $51 million of IEEPA tariffs. So, that's part of it. But yeah, there had more to do with it than that. I think I'd just say, we do well, whether it's at DGD or in Darling, we do well in volatile markets. I think our supply chain is extremely well positioned to take advantage of selling to the optimal market from buying the lowest cost feedstock on a CI score adjusted basis, and take advantage of when to price the different elements that go into a renewable diesel product.

That volatility, it generally works in our favor. It worked in our favor in the second quarter for sure. I think as the market stabilizes, more like we are now, we expect a margin environment for our business to look more like the spot market, which is very healthy. But as you point out, $2.25 a gallon average for the quarter and second quarter, that was on average higher than what we saw in the spot market environment, and that's just DGD taking advantage of the volatility and running a very solid supply chain.

Jason Gabelman
Analyst, TD Cowen

Q

Thanks for that.

Operator: Our last question comes from the line of Carla Casella with JPMorgan. Carla, your line is now open.

Carla Casella
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you for taking the question. Just in the past, you've talked about getting – looking to get to investment grade, and I'm just wondering if there's any update in terms of your leverage targets or thoughts about a potential investment-grade rating.

Randall C. Stuewe
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

A

Yeah, Carla. This is Randy. When you look at it, we've got about a $0.5 billion bond that's out there that's current now, maturing in April. Clearly, the cash generated this year, we have – and the revolve, we have the capability of paying that off, and then we're down to like $1.8 billion of unsecured debt out there as I look forward here. One maturing in 2030, I believe, and one a little after that. But yeah, essentially, we will be investment grade if we want to be. And as we decide that the cap structure going forward, as we look at the different options of repatriating cash to shareholders, we're looking at the whole thing for Darling right now. And investment grade is one of those things that, like we said, we want to reiterate a 2.5 times leverage ratio. So, yeah, implied with that is the investment grade rating.

Carla Casella
Analyst, JPMorgan Securities LLC

Q

Okay. Great. And just kind of one quick follow-up on the tariff question. I know you're not including anything that is in that basket until it's likely, but do you have the value of what's the potential?

Randall C. Stuewe
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

A

We have not made that public, no.

Carla Casella
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you.

Operator: There are no further questions at this time. I will now turn the call back to Randall Stuewe for closing remarks.

Randall C. Stuewe
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Hey. Thanks, everybody, for all your questions today. And as always, if you have additional questions, please feel free to reach out to Suann. Stay safe, have a great day, and we thank everybody for joining us today.

Operator: This concludes today's call. Thank you for attending. You may now disconnect.