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Darling Ingredients, Inc. (DAR)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Darling Ingredients, Incorporated. Conference Call to discuss the company's Fourth Quarter 2024 and Fiscal Year 2024 Financial Results. After the speakers' prepared remarks, there will be a question-and-answer period. [Operator Instructions] Today's call is being recorded.

I would now like to turn the call over to Ms. Suann Guthrie. Please go ahead.

Suann Guthrie

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

Thank you for joining the Darling Ingredients fourth quarter 2024 and fiscal year 2024 earnings call. Here with me today are Mr. Randall C. Stuewe, Chairman and Chief Executive Officer; Mr. Brad Phillips, Retiring Chief Financial Officer; Mr. Bob Day, our new Chief Financial Officer; and Mr. Matt Jansen, Chief Operating Officer, North America.

Our fourth quarter 2024 and fiscal year 2024 earnings news release and slide presentation are available on the investor page of our corporate website and will be joined by a transcript of this call once it is available.

During this call, we will 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 factor section 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 statements.

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 thanks for joining us for our fourth quarter 2024 and fiscal year 2024 earnings call. As previously announced, Brad Phillips will be retiring after 36 incredible years at Darling Ingredients. After the 10-K is filed at the end of this month, Bob Day will assume the CFO position. As this will be Brad's last earnings call, I want to thank Brad for his many years of service. The memories are numerous as Brad and I have done many of these calls with you. And I think I speak for everyone in this room and on the call that we will truly miss you. As you proceed to the next chapter of your life, congratulations and best wishes to you and your family. Stay healthy, my friend. You will be dearly missed. But it's time for the next chapter of our history and we welcome Bob Day into that exciting role.

Now turning to the quarter and the year. Darling Ingredients delivered its strongest quarter of the year in 2024 and one of its top years in its 142-year history. While global markets were incredibly volatile, we focused on what we could truly control. Through effective margin management and CapEx stewardship, we paid down $353 million in debt, reducing our financial leverage ratio to 3.68 times. We received $179.8 million in dividends from Diamond Green Diesel and successfully started up the largest sustainable aviation fuel unit in the world under budget and ahead of schedule.

For the fourth quarter, our combined adjusted EBITDA was $289.5 million, which was net of a $59-million lower cost of market adjustment noted in last week's press release for our share of the joint venture ownership in Diamond Green Diesel. The company continued its focus on operational excellence, which resulted in gross margin improvement in the fourth quarter of 2024 compared to the third quarter of 2024 despite lower fat prices. We also want to point out that we delivered a significantly improved global safety record, frankly, an all-time record for our global team.

Turning to the Feed Ingredients segment, global rendering volumes remained as expected and continue strong. The regulatory environment is improving and clarity has arrived. With the recent notice from the US Department of Treasury on the 45Z Clean Fuel Production Tax Credit and the updated GREET model, we believe what we have and what we need to begin calculating and monetizing the credit.

As noted in our press release, waste fats have been steadily improving and should provide a nice tailwind for Darling Ingredients into 2025. Once again, our focus on spread management, smart CapEx deployment, and operational excellence resulted in nice gross margin improvement in the Feed segment. We went from 21.5% in third quarter to 22.6% in the fourth quarter. I want to thank our global operations teams for the bold and aggressive execution they delivered.

Now turning to our Food segment, we saw a slight improvement in sales in the fourth quarter compared to the third quarter as industry conditions improved. The company is continuing to focus on margin management, which resulted in a nice improvement in gross margins from 23.9% in third quarter to 25.7% in fourth quarter. Our first sales of Nextida, our revolutionary natural glucose moderation collagen peptide, have hit the market and demand is beginning to accelerate. We're excited to have several more of these products now in the pipeline.

Okay. Turning to our Fuel segment. Darling Ingredients received a cash dividend from Diamond Green Diesel of $68.6 million in the fourth quarter of 2024 and $179.8 million in cash dividends for the full fiscal year. Subsequent to the quarter close, we have now received another cash dividend of $86.4 million in January of 2025. DGD continues to outperform its peers on many metrics and continues to be the best-in-class producer.

We have thoroughly reviewed the 45Z Clean Fuel Production Credit guidance with third-party auditors and are aligned in determining that it provides a clear, safe harbor for the company's accounting treatment of the tax credit. As a result, we are confident in our ability to book the credit and fully realize its value. While there are few details to iron out regarding feedstock options and certification by product and destination, DGD's strategic location, logistical flexibility and capability to process a diverse range of feedstock positions us well to maximize the value of this credit.

With that, I'd like to turn it over to Brad to take us through some financials, and then I'll come back with my thoughts on 2025. Brad?

Brad Phillips

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

Okay. Thanks, Randy. Net income for the fourth quarter of 2024 totaled $101.9 million or $0.63 per diluted share compared to net income of $84.5 million or $0.52 per diluted share for the fourth quarter of 2023. Total net sales were $1.4 billion for the fourth quarter of 2024 as compared to $1.6 billion for the fourth quarter 2023. Operating income decreased $36.4 million to $122.4 million for the fourth quarter of 2024 compared to $158.8 million for the fourth quarter of 2023, primarily due to a lower gross margin from significantly lower fat prices, which was substantially offset by lower SG&A, higher earnings from DGD, lower restructuring and asset impairment charges, a favorable change in fair value of contingent consideration, and lower depreciation and amortization expense.

Total other expenses decreased $18.7 million in the fourth quarter 2024 as compared to the same period in 2023, primarily due to lower interest expense, as well as increased property insurance recoveries related to prior property casualty losses. For fiscal year 2024, net income was $278.9 million or $1.73 per diluted share as compared to net income of $647.7 million or $3.99 per diluted share for fiscal 2023. Net sales for fiscal year 2024 were $5.7 billion compared to net sales of $6.8 billion for the same period of 2023.

Operating income decreased $481.5 million to $468.2 million for fiscal 2024 compared to $949.7 million for fiscal year 2023. The decrease was primarily the result of a lower gross margin in global ingredients and lower earnings from DGD, somewhat offset by lower SG&A, lower restructuring and asset impairment charges, and a favorable change in fair value of contingent consideration.

Total other expenses decreased $2.1 million for fiscal year 2024 from $234.8 million to $232.7 million as compared to fiscal year 2023, primarily due to lower interest expense and increased property insurance recoveries related to prior property casualty losses that were substantially offset by foreign currency losses.

For the three months ended December 28, 2024, the company recorded an income tax benefit of $25.5 million, primarily due to the biofuel tax incentives. The company also paid $20.3 million of income taxes during the quarter. For the 12 months ended December 28, 2024, the company recorded an income tax benefit of $38.3 million. The company's effective tax rate for the year is a negative 15.5%. Excluding the biofuel tax incentives and a change in valuation allowance related to deferred tax assets, the effective tax rate is 23.6%. The company paid $102.7 million of income taxes in 2024.

As you know, the Clean Fuel Production Tax Credit is a transferrable income tax credit replacing the blenders tax credit beginning in 2025. As previously indicated, we believe the guidance released by Treasury last month provides a line of sight to realize and monetize these credits. We are vigorously working through the details with our business partners. We look forward to providing an update soon.

In the fourth quarter of 2024, we paid down approximately $162.9 million of debt. And as Randy previously said, $353.4 million of debt was paid down for fiscal year 2024. The combination of effective working capital management, CapEx stewardship, and solid receipts and dividends from the Diamond Green Diesel Joint Venture assisted in the company's ability to de-lever while also purchasing about $34.3 million or about 1 million shares of our common stock.

The company's total debt outstanding as of December 28, 2024 was $4 billion compared to $4.4 billion at year end 2023. Our bank covenant preliminary leverage ratio at Q4 2024 was 3.93 times and we had approximately $1.2 billion available to borrow under our revolving credit facility.

Capital expenditures totaled $73.3 million in the fourth quarter and $332.5 million for fiscal year 2024. As Randy mentioned earlier, we received $68.6 million in cash dividends from DGD during the quarter and $179.8 million for fiscal year 2024, with an additional $86.4 million that was distributed in January 2025. While the 2025 operating plan calls for a slight increase of capital expenditures to approximately $400 million, it will be judiciously managed based on market conditions.

Now, I'll turn the call back over to you, Randy.

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

Thanks, Brad. Well done. We are optimistic about 2025. We have begun the year with strong momentum and expect that to continue to build throughout the year. Global raw material volumes remain robust and stronger fat prices in the first quarter should provide a lift as pending tariffs and Clean Fuel Production Credit provide even greater certainty to the value of domestic feedstocks. This is very advantageous for our core ingredients business as Darling Ingredients is the largest producer of waste fats in the world and the only truly vertically integrated renewable producer.

With regulatory clarity on US biofuel policies such as 45Z and California's Low Carbon Fuel Standard, we believe the market is stabilizing. A sharp decline in foreign biofuel imports and early signs of capacity rationalization in the domestic biodiesel and renewable diesel production indicate a more balanced supply and demand environment for 2025. These dynamics, combined with our strategic positioning and operational expertise, uniquely position us to capitalize on the market and drive growth.

As the market continues to work through the details on the clean fuel production tax credit, I expect our ingredient prices and RINs to adjust and solidify throughout the year. Our priorities for 2025 are very clear. We're staying focused on disciplined capital deployment, efficient working capital management, operational excellence, and margin management. Our goal is to maintain a strong financial policy with a focus on deleveraging, aiming for a 2.5 times bank leverage ratio in the future.

We'll continue to drive robust research and development in the collagen peptide space, delivering a powerful portfolio of natural collagen solutions with holistic and targeted health benefits. We'll also continue to explore expansion opportunities into renewable natural gas as those markets evolve in the United States and Europe. And as our SAF sales book continues to build nicely, we are looking at ways to convert more renewable diesel into SAF.

We expect 2025 to be stronger than 2024, gaining momentum throughout the year as DGD turnarounds are completed and SAF sales command a larger percentage of our mix. Given the fourth quarter 2024 run rate and with only one period into the new year, I am providing guidance of $1.25 billion to $1.3 billion combined adjusted EBITDA for 2025. And we'll provide updates as the year progresses.

With that, I'd like to go back to Q&A now.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Please limit yourself to one question and one follow up question. We'll pause for just a moment to compile the Q&A roster. Our first question comes from the line of Manav Gupta of UBS. Go ahead, please.

Manav Gupta
Analyst, UBS Securities LLC

Q

Good morning, Randy, and congrats, Brad. You've been very helpful over the years. My question relates to 45Z. Like when we look at 45Z, it feels like it was custom created for DAR, almost like one of the senior management members broke into the room where it was being written and wrote it for them. That is no credit for imported RD, no credit for RD from imported UCO, waste oil getting a much bigger credit than bean oil, no credit for canola. All these things should help DAR. So, help us understand all the ways in which 45Z makes DAR a relative winner in the space.

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

A

Yeah. Look, this is Bob. Thanks, Manav. I'll go first. I think Randy stated very clearly in his opening remarks about – how we feel about 45Z. But I'll just reiterate and say that 45Z is law. The due diligence and advice that we've gotten make us confident that the current notice provides safe harbor the ability to realize the credit value unless or until a new notice is provided. So, we're very pleased with what's out there today and what we're able to do with that.

You pointed out in your question, this is a CI score adjusted tax credit and it's only eligible to US biofuel producers. That's for reasons that have nothing to do with Darling's influence, but it has more to do with just the environment that we're in and what's good for policy. It is very positive for Darling. The primary reason for that is being a CI-adjusted tax credit, Darling produces the lowest CI score feedstocks that are eligible for this credit, global animal fats and US-used cooking oil. We are the largest producer of those two things.

And then, it's also extremely positive for Diamond Green Diesel. They also are able to benefit from low CI score feedstocks. And if those feedstocks earn a higher margin and producing biofuel, Diamond Green Diesel is well placed to process – to pre-treat and process those feedstocks better than anyone else has proven to be able to do. And eliminating foreign biofuels from eligibility to the PCC, it certainly plays to DGD's strengths given the amount of US production that they have.

Manav Gupta
Analyst, UBS Securities LLC

Q

Perfect. Guys, I'll ask a very quick follow up. Randy, in your opening comments, you did say looking to make more SAF versus RD. Can you just elaborate on that a little?

Matthew J. Jansen
Chief Operating Officer-North America, Darling Ingredients, Inc.

A

Hey. Good morning, Matt – or good morning, Manav. This is Matt. Yeah. So, we've mentioned in the past once we got our first SAF line up and running that we would be looking to for other opportunities next eventual steps in adding additional SAF capacity. And that's exactly what we're doing. And so, as you know, only about half of our production at DGD 3 is channeled towards the SAF line. And so, whether we actually go in and invest to add the capacity there in Port Arthur or if we do something in Norco. But these are all things that I think will transpire over the coming months.

And looking at – now that we have – one of the big hurdles was, okay, this is new for us so we want to get in and be able to, A, build the plant; B, process and [ph] make spec (00:26:31); and, C, sell it. And so, we've accomplished all of those at this point. And so, that's what's giving us the confidence to work towards our next SAF plant.

Operator: Thank you. Our next question is from the line of Dushyant Ailani with Jefferies. Please go ahead.

Dushyant Ailani
Analyst, Jefferies LLC
Q

Good morning, guys. Thank you for taking my question. Brad, it was a pleasure working with you. And Bob, congrats on the new role.

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

Thank you.

Dushyant Ailani
Analyst, Jefferies LLC
Q

My first question is on the LCM adjustment. Maybe could you share more about what that – like more about what the actual adjustment because it's truly non-cash? And then, maybe thinking about 2025, the guide that you have given the $1.25 billion to $1.3 billion, does that – as of today, does that exclude any impact from LCM adjustments?

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

Do you want to take the guide question?

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

Yeah. Dushyant, this is Randy. I'll take the guide question. Obviously, the core ingredient business in Q4 set a much higher run rate than 2024. We're coming out conservative at DGD, but think basically equivalent to the per gallon run rate that we had last year at this time. And no, it doesn't include any LCM pickup.

It's not hard to see DGD doing much better than the combination of $900 million or $1 billion in the core ingredients and $250 million or $350 million within the combined adjusted there. We're just trying to take a conservative view at this moment. Clearly, there's been a lot of questions on what you can monetize. I think Bob did a really nice job. I mean, one more time to reiterate it. And so, we don't have to answer it another six times today is 45Z is law. We know how to calculate it. Our advisors and tax counsels are comfortable with how we're calculating. And we believe it can be monetized and will be recognized.

So, we're operating the business with that view right now. We fundamentally view that – and we'll talk about this and maybe Bob can comment a little bit on it. We'll talk about the tightening of the RIN S&D and the curtailing of capacity. And so, Bob, you want to go to LCM and that then?

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

A

Yeah. And, Brad, feel free to jump in. But trying to explain LCM and how it works would be impossible on this call, but it is a non-cash expense. We recognize it. For those that want to pull it out, it's relatively easy to do so. And it's part of an accounting system that is pretty typical for the oil and gas industry.

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

A

The only thing I would add on LCM, Dushyant, is obviously DGD's financials, which will be attached – audited financials which will be attached as an exhibit to our 10-K in a couple of weeks. In that audit, the LCM is called out. That's the way it is audited, recorded, and we follow that. Our partner has different opportunities there and we understand the analysts for the most part back it out. But we'll continue to record it as the audited number, our share of that LCM. Back to you, Bob, for anything else.

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

A

That's perfect.

Dushyant Ailani
Analyst, Jefferies LLC

Q

Perfect. Thank you, guys. Appreciate that. And then maybe just the next one on Nextida, could you share kind of more details on what the ramp looks like in 2025? And then maybe if possible, could you quantify what – how much of the food sales was Nextida in 4Q?

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

A

Well, I think, we don't disclose what sales were in the fourth quarter. But what we can say is that we are working with a number of CPG companies to help them determine what they can say about the product, its efficacy, and really support the rollout of different brands of getting this as an ingredient in there.

What we're seeing is some interesting traction there. This is the kind of product that requires consumer education. And so, our CPG customers are investing a lot to educate customers on how to use the product, and we're just really confident that we're going to continue to see traction. This is a hot topic in our environment today and a lot of people are trying to figure out what do they do after they're done using the pharmaceutical products. And this is a great solution to that problem.

Operator: Thank you. Our next question is from the line of Derrick Whitfield with Texas Capital. Go ahead, please.

Derrick Whitfield
Analyst, Texas Capital Bank

Q

Good morning, all, and thanks for taking my questions. Also, congrats to both Brad and Bob on your respective announcements. With my...

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

A

Thanks. Welcome back. Welcome back, Derrick.

Derrick Whitfield
Analyst, Texas Capital Bank

Q

Happy to be back. Happy to be back. With my first question, I wanted to lean in on 45Z from a macro perspective as I know you guys are consistently calculating real time spreads for the sector. While I agree 45Z was exceptionally positive for your business for both the upstream and downstream segments, the marginal SBO RD operator has taken a near $0.80 per gallon hit and that has been partially offset with lower SBO costs. But from here, it seems to us that either the RIN has to improve or SBO has to go lower to further offset that loss assuming we still need those volumes after backing out RD and biodiesel imports. To you guys, like what does your crystal ball say on how this market will firm?

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

A

Yeah. Look, this is Bob. I think – so, what I would add to your question is not only just 45Z kind of lay these things out and make it challenging from a CI score standpoint for some others, but there's a lot of complexity inside 45Z in terms of how to comply. Certifications require different mix of feedstocks for different products. Diamond Green is really well positioned to understand that up-front and prepare for that and be agile as it works through that.

We think that a lot of companies are going to struggle with that in addition to just general eligibility. And so, all of that really points towards lower production of biofuels, fewer imports of biofuels, which decreases RIN production and increases the value of RINs and LCFS credits.

And so, we're seeing it already. It's just that RINs don't trade like a mature futures market would trade where you've got a lot of speculative liquidity in the market and its value in products in the forward book. We need to see the tightness in the near term supply and demand before we see price reaction, but we're starting to see that. And our crystal ball says that we're going to continue to see more of that as the year goes on.

Derrick Whitfield
Analyst, Texas Capital Bank

Q

Terrific. And maybe focusing on the upstream aspect of 45Z. As you guys commented on backing out UCO imports and removing canola certainly increases the value of SBO and it should also increase the relative value of your domestic fats. Are you guys seeing greater non-DGD demand to start the year? Meaning are your competitors getting better at running [indiscernible] (00:34:21)?

Matthew J. Jansen
Chief Operating Officer-North America, Darling Ingredients, Inc.

A

Hey, good morning. This is Matt again. I would say that, yes, we are. Although I would say it's still early in the game. There's been just so much time and energy spent on digesting the 45Z and what that means and how that all plays. And there was also a lot of, call it, logistical preparation going into the transition from 2024 to 2025. So yes, we have, but it's a little bit slower to play out than what you might imagine. But we fully expect that to continue.

Operator: Thank you. Our next question is from the line of Pooran Sharma with Stephens. Please go ahead.

Pooran Sharma
Analyst, Stephens, Inc.

Q

Great. Thanks for the question. I wanted to start off and just kind of dig into the dividend. On the release, you mentioned the JV is debt free. So, an uplift to the distributions. And then, the January figure was pretty large. So, just want to get your thoughts on how to think about that dividend for the year. Is January – is there something in there that made that number large? Or just any color around that would be helpful.

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

A

Yeah, this is Brad. We've mentioned before, but I'll repeat. It's a monthly distribution calculation on a given day. So, what do I say that is good question? I mean, the $86 million obviously was a calculation off the very end of 2024. There is a third-party revolver. As you mentioned, the JV's debt free when the distribution is made. But because it's on a given day with some forward-looking forecasting involved, it'll be kind of up and down.

But as we look at 2025 and moving into the PTC, you saw what the number was for the full year 2024. What I would say out there is where we see things right now, we see distributions and obviously with a solid start there being greater than 2024, is there going to be a distribution every month? You never know. It just depends on that day. But we see obviously great momentum going into 2025 and probably see larger distributions in total.

And the way that works is going to be, as you may recall, PTC coming back through the JV outside the distribution policy, the PTC credits that are sold as we monetize them, those will come back to Diamond or to Darling via Diamond. And then that combined with dividends that we would foresee out of there, the combination of those two, we would see being somewhat larger than this past year.

Matthew J. Jansen
Chief Operating Officer-North America, Darling Ingredients, Inc.

A

I would just add on to that, that other than our two ongoing catalyst turnarounds in Q1, looking forward, do not see anything in terms of significant CapEx beyond what would be just normal run rate CapEx.

Pooran Sharma
Analyst, Stephens, Inc.

Q

Got it. Appreciate that color. And I guess just as a follow up here. Wanted to dig into the staff opportunity a little bit more. From the operational side, I think you guys mentioned that the production – incremental production costs are lower for lower cost operators like yourselves. So, just wanted to get some color around that. And then secondly, if you could maybe just talk about maybe the progress you've been making on the commercial side. You've made some announcements within the past month, but just wondering if you could kind of give us a State of the Union on that.

Matthew J. Jansen
Chief Operating Officer-North America, Darling Ingredients, Inc.

A

Sure. This is Matt again. I would say that from a cost standpoint, yes, we believe that we are favored or in a strong position in terms of our cost to operate the SAF production. And then, you're right, we have made some announcements on some of the commercial contracts that we've made. I'd just point out that not all of these contracts come down to a public release for competitive reasons. In many cases, our customer chooses not to make a public release, but we see strong demand continue through 2025 and 2026, not only in the US but also in Europe.

Operator: Thank you. The next question is from the line of Heather Jones of Heather Jones Research. Please go ahead.

Heather Jones
Analyst, Heather Jones Research, LLC

Q

Good morning and congratulations on the retirement, Brad. It's been great working with you for many, many years. So, my question was on fats pricing. So I think, Matt, you mentioned that the catalyst change is still ongoing at Diamond Green. But I mean, we've seen very strong moves in fat pricing over the past few weeks here in the US and then European fats have just taken off.

So, in the US market, is that just simply a function of just the sharp shut off of feedstock imports? Is that the commissioning of Geismar expansion? Just what do you see driving that given you all are in the catalyst change and the uncertainty around 45Z? There's been some pullback in producer demand. So, just would love to see here we all have seen in that market.

Matthew J. Jansen
Chief Operating Officer-North America, Darling Ingredients, Inc.

A

Sure, Heather. First of all, keep in mind that we – our catalyst change is not across all of DGD 3. So, while we have had in the month of January a catalyst change in DGD 2 and then DGD 1 and through the course of this month. But we still have been able to run at, let's say, an expected rate on the plants that we have not had the changes on. So, in other words, DGD 1 ran in January and DGD 3 is running continuously. So, we have continued to procure and originate fats on an ongoing basis.

I would say that starting probably in early December, we saw a slowdown of imports and that was, I think, largely related to just the transition from the BTC to the PTC. People were managing the inventories around that, and so that's picking up. And so, we're trying to get back to what – the market is trying to get back to a standard run rate and that's refilling the pipeline I think in many cases.

And you're right, we have seen a significant bump in fat prices, but it's something that – it's obviously market driven and not only is DGD continue to buy, but the other producers in the market are also buying as well.

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

A

Yeah. I would just add, Heather. This is Bob. 2025 it's kind of the first year where we've got substantial SAF demand from a volume standpoint. And what we're seeing is as we sort of move into 2025, the availability broadly in the market of SAF is not quite where a lot of others suggested it would be. And so, we're just seeing a tightness of S&D, and prices are falling.

Heather Jones
Analyst, Heather Jones Research, LLC

Q

And following up on that in the European piece, I mean, UCO have been getting stronger all through late 2024 and continues to be strong. But the animal fats have taken off. And is that related to the new SAF mandates there and haven't – can't use vegetable oil for those? I mean, what do you all see driving that business?

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

A

I think, first of all, animals – I mean, if you look at 45Z, that's very supportive to global animal fat. So, that's probably where – what's driving a lot of that European SAF demand as well is going to support that. So, I think really it's all those things combined that it's moving in that direction.

Operator: Thank you. Our next question is from the line of Andrew Strelzik with BMO Capital Markets. Go ahead, please.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Hey, good morning. Thanks for taking the questions. My first one, I wanted to ask about the focus on operational excellence, which obviously you've talked about in prior quarters as well. But can you talk about anything incremental that happened on that front in the fourth quarter or maybe even into 2025 given kind of the decoupling of the trends in fats and your margins? Is there a way to frame the contribution from that in the quarter?

Matthew J. Jansen
Chief Operating Officer-North America, Darling Ingredients, Inc.

A

I don't know that I would call something out specifically other than just what I would say is this is an ongoing effort. And we're starting to see the dividends that we've done over the last two years, especially in the US and the Eastern Shore, where we've done a lot of work to streamline and to add capacity, add reliability, and decrease cost to the system. And that's showing now through the numbers.

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

A

Yeah. And I would say, Andrew, I mean, globally, when you get into a deflationary market, which we were in since really the winter of 2023 and most of 2024, it just takes a while to make a lot of adjustments out there on the procurement side. Each contract, each supplier, each geography is a little bit different. Same goes for the Rousselot business. And we're now starting to see the fruits of our labor of that starting to flow through the P&L here. There's been a lot of – we've always tried to operate as a low cost operator out there, not mounting giant cost cutting initiatives because you shouldn't be in that position anyway.

Our biggest piece is simply in the procurement side and making sure that we get compensated for the risk we're taking. Kind of the replacement cost of equipment out there has skyrocketed. And ultimately, it just takes a little while. I don't know that we made a lot of friends and a lot of abattoirs and slaughterhouses and integrated providers around the world, but they also recognize that our reliability has to be incented and paid for. And I think I'm very proud of what the team did.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Okay. That's helpful color. And then I wanted to ask about also the Food segment where the EBITDA had a nice sequential step-up quarter-over-quarter. Is there seasonality in that business that would have helped that? Are you seeing kind of underlying improvements? Maybe you could talk about what you're seeing in terms of destocking and demand and competitive dynamics that you've addressed in the past couple of quarters. Thanks.

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

A

Yeah. I don't think there's a tremendous amount of seasonality in the business. But I think you touched on something that's important. And we had been in a market that was relatively high in inventories, has been destocking. And we're starting to see kind of nearing the end of that and some improvement. So, sales were good and margins were stable.

Operator: Thank you. Our next question is from the line of Matthew Blair with TPH. Please go ahead.

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

Q

Thank you and good morning. And, Brad, congrats on your long and successful tenure and wishing you the best on your future endeavors.

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

A

Thank you.

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

Q

Circling back to the 2025 guide, if I heard correctly, it sounds like the core business would be around $900 million to $1 billion that's included in that guide. If we annualize Q4, I think we're looking around $840 million, but Q4 does tend to have some seasonal tailwinds in feed. So, could you talk about what's the incremental upside into 2025? Is that simply higher fats pricing from 45Z that's boosting feed? And are there any other growth initiatives? Or what else is helping push the numbers up for your core business in 2025?

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

A

This is Randy. Matt. I mean, when I take $233 million and multiply it times 4, I get $932 million. That's before fat prices started to go up here. We've seen fat prices were relatively flat in the January results, as we saw, but they've accelerated on $0.04 to $0.05 a pound in the February period here and that'll start to flow through. So, clearly, procurement improvements that we referenced in the last question, improving fat prices and demand for low CI feedstocks, both from DGD and other processor.

Protein demand around the world feels pretty darn strong. I think that's been referenced by the soybean guys. There's strong demand for protein out there. So, we feel pretty good about what's going on there. The Rousselot business is doing quite well. And, Bob, anything you want to add?

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

A

You know, I think we covered on the last question that demand has been solid and margins are stable, and we've got some new products on the market, so.

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

Q

Sounds good. And then, you're aiming to pay down about $400 million of debt in 2024. Looks like you almost hit that target. Could you discuss any targets for debt reduction in 2025 or 2026?

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

Yeah. Matthew, this is Brad. In 2025, where we see things right now and you guys have been talking about kind of the environment right now, fats recently shown some move up. We see debt reduction outside anything abnormal, anywhere from $350 million to $500 million this coming year. Randy said earlier, obviously, our – where we're headed is 2.5 times on leverage. I think by the end of this year we're going to be very far along that path with that debt reduction. Yes, we're about a year behind but – due to the market conditions that hit us about 15 months ago. But that's kind of the outlook that we see right now.

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

Yeah. And I mean, it's not hard to do the math. You're at $4 billion now. If you pay down $400 million to $500 million next year, you take it to $3.6 billion. You get to $1.350 billion to $1.40 billion and you're at the 2.5 times.

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

Great. Thank you.

Operator: Thank you. The next question is from the line of Tom Palmer with Citigroup. Please go ahead.

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

Hello, Tom.

Operator: Tom, please ensure your line is unmuted. Tom, please ensure your line is unmuted to ask your question. Hearing no response. We will take the next question from the line of Davis Sunderland with Baird. Please go ahead.

Davis Sunderland
Analyst, Robert W. Baird & Co., Inc.
Q

Hey. Good morning, guys. Thank you for the time. Appreciate you taking the question. I just want to start by adding my congratulations to Brad and Bob. Thank you for all the help, Brad. Yeah, most of my questions have already been answered. If I could just re-circle back to one about SAF.

Randy, I think you talked earlier in 2024 about contracting and the process for these SAF contracts taking longer than you guys had initially planned just due to many different suppliers in the supply chain and moving pieces in the market. And obviously just being a new product. And I just wondered, is there any sense of now that some deals are out there and there's a template for how to do these deals, maybe any kind of acceleration with new deals that you're seeing now having moved into 2025? Or how do we think about that market developing from your guys' contracting perspective?

Matthew J. Jansen
Chief Operating Officer-North America, Darling Ingredients, Inc.
A

This is Matt, and I'll take that one. I would say that we continue to contract on SAF for one, two and three years going forward, mostly frontend loaded. And I think there was a – call it a digestibility or an acceptability to can DGD actually come to market with this SAF in a reliable way. And we're now have the – we've proven that we can and the confidence. So, we're actually seeing a pickup in interest going forward. But despite the fact that we'd already had a pretty healthy sales book already developed.

Davis Sunderland
Analyst, Robert W. Baird & Co., Inc.

Q

Great. I'll take the rest offline. Thanks, guys.

Operator: Thank you. The next question is from the line of Betty Zhang with Scotiabank. Please go ahead.

Betty Zhang
Analyst, Scotiabank

Q

Hi, thanks. Good morning. Thanks for taking my question. For my first question, I wanted to ask about RG. What kinds of opportunities are you guys looking at? And specifically what types of feedstocks? And how do you see your competitive advantage translating into the RG space?

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

A

Yeah. This is Bob. I'll take that one, Betty. So, first, I'll just start by saying that we have a large, call it, [ph] RNG to (00:52:48) electricity business in Europe today. So, it is a capability that Darling has and understands quite well. What we've seen more recently is a lot of interest in voluntary demand for renewable natural gas that would support investments in United States.

We started by forming an agreement with a group called GreenGas where we are covering our wastewater treatment plants and converting biomethane into renewable natural gas. That way we are looking at opportunities to scale that up and Darling, with our position in the United States, our access to freight, animal, waste streams and food waste streams, we're really well positioned to pull that together and take advantage of what we see as an improved market. And so, we're continuing to evaluate that opportunity. And we really think United States is a very interesting region to see that develop.

Betty Zhang
Analyst, Scotiabank

Q

That's helpful. Thank you. And for my second question, I wanted to ask about CapEx. I think for 2024, it came in a bit lower than what we were expecting kind of the beginning of the year. And also, you're seeing maybe a small step up to around $400 million for 2025. If you could maybe just walk us through the moving pieces there.

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

A

Yeah. Betty, this is Randy. Yeah, $333 million was the number for 2024. And right now, $400 million has a little bit of growth CapEx and debottlenecking of different factories and also some greenfield construction of some new assets that we're working on out there right now. As we've explained to our team, as we build momentum during the year, that number will move around. But right now, $400 million feels like a good number. I think the thing that's most important for me and the team is that the number that we delivered last year did not capital deprive the assets out there.

And so, there's – I don't want it to be thought of as make up capital because it wasn't. We just delayed some growth projects a year while we delevered a little bit here. So, $400 million is a good number. We'll, as Brad said in his comments, judiciously manage it [indiscernible] (00:55:13) something here and continue to put the company in good position for the future.

Operator: Thank you. The next question is from the line of Jason Gabelman with TD Cowen. Go ahead, please.

Jason Gabelman
Analyst, TD Cowen

Q

Yeah. Hey, thanks for taking my questions. And, Brad, congrats on retirement. It was great working with you.

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

A

Yeah. Thank you.

Jason Gabelman
Analyst, TD Cowen

Q

The first question – yeah. The first question is kind of a broad policy one. Right now you're selling SAF into Europe. And Europe obviously has anti-dumping duties for renewable diesel and biodiesel, not for SAF then. Do you see that as a potential risk for your SAF sales into the region? If that happens, are you either able to get grandfathered in because of your contracts or move volumes while retaining the margin? And then, kind of a broader part of that, do you see any other regulatory risk out there besides, of course, the 45Z?

Matthew J. Jansen
Chief Operating Officer-North America, Darling Ingredients, Inc.

A

Hi, Jason. Good morning. This is Matt. I would say there's a lot of hypothetical in that question. In terms of the way that we would deal with that would be if and when there is something that comes down the pipe. But today, we don't see that on the horizon.

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

A

Regulatory...

Matthew J. Jansen
Chief Operating Officer-North America, Darling Ingredients, Inc.

A

Yeah. I'd just say, look, I think with respect to sales to Europe, we're selling based on – we sell a price that – we offer a price and our customers are going to deal with certain regulatory hurdles that they need to get through those. We're not only selling to Europe, we're selling a lot United States as well. And so, I think, Diamond Green is well balanced.

As far as the regulatory environment and 45Z, I think it's a good point because we've gotten this notice and we're working with this notice. And could that notice change or could a new notice be put out? That's certainly possible. But what we see is really broad bipartisan support for US biofuel policy, maybe not all environmental policy but biofuel policy. And so, however that shakes out, we're confident given sort of the global network that we have and the integration between Darling and Diamond Green Diesel and Valero that we'd be able to adapt to whatever regulation unfolds.

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

A

Yeah. And I think just following up on Matt. He did a nice job of explaining. At the end of the day, our customers don't feel that or share that risk right now. As you know, it's optional origin when they pick up out of the Gulf where they're going with the product, whether it's the West Coast, whether it's up north or whether it's on to Europe.

Jason Gabelman
Analyst, TD Cowen

Q

Got it. Great. Thanks for that color. And my follow up is on the LCFS program. I think there was some hope with the new amendment that LCFS prices would start to move higher. They've clearly come off lows, but maybe not at the triple-digit levels that some had hoped. I was hoping you could reflect on kind of why you think LCFS prices have not rebounded maybe to the expectations that some have had and your assumption for LCFS prices for 2025 within your guidance.

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

A

Yeah. So I think – this is Bob. The amendments that CARB passed would be effective April 1. And we're just continuing to wait for confirmation of those amendments. I think if the market sees that, we'll start to see that change. But similar to RINs, LCFS credits, they don't trade like a mature futures market does.

And so, we are coming into this year with a lot of credits, a big bank. The market really needs to eat through that bank before we start to see credit values increase. And so, specifically with LCFS credits, that's probably something that happens slowly throughout the course of the year.

Operator: Thank you. This concludes our question-and-answer session. I would like to turn the conference back over to Randall Stuewe for any closing comments.

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

Thanks to everybody. Great questions today. Really appreciate it. Well done by our team describing the situation. And, Brad, we want to just say thank you for everything you've done for 36 years. You'll truly be missed. And as always, if you have additional questions, feel free to follow up with Suann. Stay safe. We'll see many of you in the conferences over the next coming couple of months here. Thank you.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.