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# Darling Ingredients, Inc. (DAR)

Q1 2023 Earnings Call

# CORPORATE PARTICIPANTS

#### **Suann Guthrie**

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

### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

### **Brad Phillips**

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

#### John Bullock

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

### Sandra Dudley

EVP-Renewables & US Specialty Operations, Darling Ingredients, Inc.

# OTHER PARTICIPANTS

### Manay Gupta

Analyst, UBS Securities LLC

### **Thomas Palmer**

Analyst, JPMorgan Securities LLC

### **Derrick Whitfield**

Analyst, Stifel, Nicolaus & Co., Inc.

# **Dushyant Ailani**

Analyst, Jefferies LLC

## Ryan M. Todd

Analyst, Piper Sandler & Co.

### Sam Margolin

Analyst, Wolfe Research LLC

#### **Matthew Blair**

Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.

# Benjamin Joseph Kallo

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

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Analyst, Stephens, Inc.

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, and welcome to the Darling Ingredients, Inc. conference call to discuss the company's first quarter 2023 results. After the speakers' prepared remarks, there will be a question-and-answer period, and instructions to ask a question will be given at that time. 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. Thank you for joining the Darling Ingredients first quarter 2023 earnings call. Here with me today are Mr. Randall C. Stuewe, Chairman and Chief Executive Officer; Mr. Brad Phillips, Chief Financial Officer; Mr. John Bullock, Chief Strategy Officer; and Ms. Sandra Dudley, Executive Vice President of Renewables and US Specialty Operations.

Our first quarter 2023 earnings news release and slide presentation are available on the Investor Relations page, under Events & Presentations tab on 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 and 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 yesterday's press release and the comments made during this conference call, and in the Risk Factors 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 statement.

I will now hand the call over to Randy.

# Randall C. Stuewe

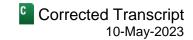
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Hey. Thanks, Suann. Good morning, everybody, and thanks for joining us for our first quarter 2023 earnings call. We have had a very solid start to the year. All business units performed as expected and our DGD system attained full rate during the month of March.

Looking at our segments in detail, for the first quarter 2023, we ended the quarter at \$418.4 million in combined adjusted EBITDA. The Feed Ingredients segment ended the quarter at \$213.1 million. Our Specialty Food Ingredients segment earned \$73.2 million, while our Fuel segment earned \$153.6 million in EBITDA, with approximately \$129.3 million attributed to Diamond Green Diesel.

Turning to the Feed Ingredients segment in detail, globally, raw material volumes were up 39% compared to first quarter 2022. While we saw a decline in global fat prices, protein prices remain strong around the world. While lower fat prices will modestly impact the segment, it will be more than offset by higher earnings in Diamond Green Diesel in future quarters.

Q1 2023 Earnings Call



Integration of our recent acquisitions remains a key focus. I'm pleased to report that once again we realized sequential gross margin improvements. We continue to make improvements at our recently-acquired Eastern USA plants that will improve reliability and efficiency, as well, allow us to produce and market higher value finished products. We're pleased with the progress and believe by year-end we will be nearly complete.

Turning to our Specialty Food Ingredients segment, the global collagen and gelatin business remains robust. We closed on the Gelnex acquisition on March 31, and integration work has already started. Together, we believe we have the strongest and most robust collagen system in the world with a pipeline of new products for years to come.

Moving to our Fuel segment, Diamond Green Diesel is running very well and set another sales record in first quarter. We have achieved a milestone with the DGD system operating at 1.2 billion gallons annually. It should be noted that March shipments were light with ship loadings moving into Q2. With lower fat prices and inbound logistics running smoothly, second quarter is shaping up to be a record for Diamond Green Diesel.

Now with this, I'd like to hand the call over to Brad to take us through the financials. Then I'll come back and discuss my outlook and thoughts on the balance of 2023. Brad?

# **Brad Phillips**

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

Okay. Thanks, Randy. Net income for the first quarter 2023 totaled \$185.8 million or \$1.14 per diluted share compared to net income of \$188.1 million or \$1.14 per diluted share for the 2022 first quarter. Net sales were \$1.79 billion for the first quarter 2023 as compared to \$1.37 billion for the first quarter 2022, or a 31% increase in net sales. Operating income increased 10% to \$255.8 million for the first quarter of 2023, compared to \$232.9 million for the first quarter of 2022, primarily due to a \$78.4 million increase in gross margin. As Randy said, the gross margin continued to sequentially improve for all segments.

Darling's share of Diamond Green Diesel's earnings increased \$22.5 million quarter-over-quarter, which more than offset depreciation and amortization increasing \$36.8 million, SG&A increasing about \$33.4 million, and \$4.5 million in additional restructuring costs primarily related to the Peabody closure. Total other expenses increased approximately \$21.7 million quarter-over-quarter with an increase in interest expense of \$34.7 million, partially offset by an increase in foreign currency gains of \$6.1 million and an increase in other income of \$6.9 million, which was primarily due to casualty loss insurance proceeds received for the prior-year Tacoma plant fire.

Now turning to income taxes. The company recorded income tax expense of \$27 million for the first quarter of 2023, with an effective tax rate for the first quarter of 12.4%, which differs from the federal statutory rate of 21% due primarily to biofuel tax incentives and the relative mix of earnings among jurisdictions with different tax rates. The company also paid \$39 million of income taxes in the first quarter. For 2023, we are projecting an effective tax rate of 14% and cash taxes of approximately \$140 million for the remainder of the year.

The balance sheet now exceeds \$10 billion in assets, with the inclusion of Gelnex. Since Gelnex closed at the very end of the first quarter, no earnings activity was recorded during Q1. The company's total debt outstanding at first quarter 2023 was \$4.7 billion after the Gelnex acquisition, as compared to \$3.4 billion at fiscal year-end 2022.

In conjunction with the Gelnex funding, we entered into a three-year interest rate swap to fix \$600 million of floating rate debt at an average swap rate of 3.78%, and also entered into a two-year cross-currency swap of \$557 million to hedge a euro intercompany loan which synthetically converted US debt to euro debt and reduced the interest rate by 1.2%.

Q1 2023 Earnings Call



Our bank coverage leverage ratio at the end of the first quarter was 3.19 times as compared to 2.54 times at fiscal year-end 2022. We continue to maintain strong liquidity with \$866 million available on our revolving credit facility as of quarter-end. Capital expenditures totaled \$111.3 million in the first quarter, with \$454 million of expenditures anticipated for the remainder of the year. The company repurchased approximately 773,000 shares of its common stock for \$43.8 million during the first quarter.

With that, I'll turn it back to you, Randy.

### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Okay. Thanks, Brad. Again, Darling is off to a tremendous start for 2023. Raw material volumes are in line with expectation. Integration activities are on target. Energy prices in Europe have moderated. Our global collagen and gelatin business is quite strong, and Diamond Green Diesel is expected to perform very well with lower raw material prices, strong green premiums, and robust global demand. The earning power of our unique vertically integrated business we have built will become very evident over the next few quarters.

Finally, we remain committed to our financial management policy that we have previously discussed. DGD is now nearly delevered, and dividends should become a reality very soon. Leverage, post our Brazilian acquisition, has peaked, and we will target a 2.7 leverage ratio by year-end, along with a goal of investment grade for 2024.

Other than our previously announced Miropasz bolt-on acquisition in Poland, which is expected to close by yearend, our M&A activity has been paused so we can concentrate on integration, value creation, and deleveraging. I have high expectations for the second quarter. And if the operating environment continues, we're estimating combined adjusted EBITDA to be in the range of \$485 million to \$525 million. For the year, we are once again reconfirming our guidance of \$1.875 billion combined adjusted EBITDA.

Now, with that, let's go ahead and open it up to Q&A, please.

# QUESTION AND ANSWER SECTION

**Operator**: We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Manav Gupta of UBS. Please go ahead.

### **Manay Gupta**

Analyst, UBS Securities LLC

First, congrats on a very good quarter. Great to see continuous improvement in the Feed gross margin. Randy, you have got some pushback on your recent M&A deals. But looks like things are really falling in place now. Those deals are giving you a big, big volume bump, which far exceeds market expectations.

My question is, with regards for demand for your products, which support these higher volumes, do you think the demand for fats, proteins, and UCO will actually hold up well for the next 12 to 24 months? And can we actually see an increase in demand for your products, both Feed and Food, in the medium to longer term?

#### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. Thanks, Manav, and John Bullock and I will kind of tag team this a little bit here on thoughts here. But yeah, I mean, global demand for proteins remain incredibly strong out there. Pet food demand remains strong. Pricing premiums are as expected. You know, clearly the fats and oils business around the world seems to have come off a little bit with palm oil leading the way and soy following and then waste fats, other than the CI premium, can't attain a considerable premium above the two biggest fats and oils in the world.

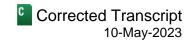
With that, demand is good. I mean, Diamond Green Diesel is running at capacity. And so, at the end of the day, that's different than, if you will, the fourth quarter as we were continuing to struggle with logistics down in Port Arthur. So, yeah, demand's going to continue to be very strong. Whether it comes from domestic or import, it'll depend on the arbitrage. But most importantly, as a management team, we want people to understand the concept and the strategy that we built Diamond Green Diesel under. The one piece of information that people just continue to ignore is, is that Darling doesn't supply 100% of Diamond Green Diesel. It can't. It's too big.

Our system has the ability globally to supply up to about half, if we want to, if we don't have better markets. It's not near that today. So what's that mean to the Feed segment and to the overall business? It's very simple. We have told shareholders for a year that every penny the fat prices move up or down is somewhere around \$10 million, \$11 million annually in US dollar EBITDA. So fat prices are down, I don't know, \$0.12, \$0.15, let's call it. That's \$150 million to \$165 million of EBITDA.

So easy math, \$0.10 a pound with standard yields in a Diamond Green Diesel plant for us, call it \$0.90 a gallon of potential improvement in margin. Half of that is \$0.45. And so if you just capture half or two-thirds, then times 1.2 billion gallons, you've got somewhere between \$500 million and \$700 million of EBITDA improvement, which we get half of. So, in the sense of a basic amateur investment thesis, if you give somebody \$150 million and they're going to give you back \$300 million or \$400 million, that's a pretty good investment. So we want people to focus on the system. And that was the system that we built. Diamond Green Diesel's collective demand drives a larger share of earnings for Darling.

John, anything you want to add to this that'll help?

Q1 2023 Earnings Call



#### John Bullock

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

Yeah, I think that you mentioned in your kind of statement there Manav, the reason we scaled is because we know what the value of low CI fats are in the world in the Valley deal and the FASA deal. We massively scaled our ability to have low CI fats available for Diamond Green Diesel. We're either going to get it in the form of higher fat prices in our core system or we're going to get it at Diamond Green Diesel in the form of higher margins at Diamond Green Diesel. So basically, we're going to win no matter how the cards are dealt.

Manay Gupta

Analyst, UBS Securities LLC

Thank you for a very detailed response. Congrats on a great quarter. I'll turn it over. Thank you, guys.

**Operator**: The next question will come from Tom Palmer of JPMorgan.

**Thomas Palmer** 

Analyst, JPMorgan Securities LLC

Good morning and thanks for the question. I know there's, and you just walked through a little bit, some moving pieces, right, with feedstock pricing and what that means for both the base business and at Diamond Green Diesel. But in the past, you provided within your guidance some outlook for EBITDA per gallon at DGD and then also what you're thinking in terms of base business earnings. I didn't hear that today. And again, I know there are some moving pieces, especially with the feedstock pricing. But do you have any kind of rough construct of how that \$1.875 billion EBITDA outlook splits between the two sides of the business?

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Good question, Tom. That's the part that we want people to focus on the system rather than trying to segment down to Food, Feed, and Fuel. It's a dynamic situation, and as John Bullock said, we win under either scenario. So at the end of the day, that's where we're coming out and saying \$485 million. So how do I get \$485 million? Well, that's \$1.875 billion minus \$418 million divided by 3, last time I checked. And then at the end of the day, we believe that the lower fat prices will have some opportunity for bigger gallons in Diamond Green Diesel in Q2.

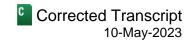
As I also made my earlier comments, boat loadings are not always linear and some gallons move from Q1 to Q2. So that's where we're giving the larger guidance, but we're largely on target. And as we said, it'll move from one side of the ledger to the other side of the ledger as we go forward.

**Thomas Palmer** 

Analyst, JPMorgan Securities LLC

Thanks for that. And maybe I could just quickly follow up on the gallons comment. So if I look at the last couple of years, last quarter there was about a \$20 million under-shipment relative to production. And then last year it was a bit closer to \$30 million. So is there inherently in the business, just given it's so much bigger, that accumulated \$50 million in inventory is a portion of that, just, hey, going forward there's always going to be a little bit more inventory being held? I'm just trying to get a sense of how much, when you're talking about this unwind coming in terms of shipment timing, we should be thinking about. Is it that \$20 million or is there this larger pool closer to \$50 million that that should unwind as the year plays out?

Q1 2023 Earnings Call



#### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

No, and I'll let Sandy comment a little bit but, as I go back and look at – been in the business for 40 years and like I said, ships come and go, bill of ladings get created and you miss a day and you don't recognize it. Also you have to understand, when Darling ships through the Diamond Green Diesel system, until it's unloaded, it doesn't get recognized in our business. So there's always those pieces in here.

But obviously, if I look at the \$418 million and I look at the bill of lading dates here, maybe it would have added, I don't know, \$15 million, \$20 million to the quarter in Q1. So that's about as granular as we can get there. But no, inventory's going to build and go as we load rail or we load barge or we load ship here, so nothing there to try to overthink.

Thomas Palmer Analyst, JPMorgan Securities LLC	Q
Okay. Thanks so much.	
Operator: And our next question comes from Derrick Whitfield of Stifel.	
Derrick Whitfield Analyst, Stifel, Nicolaus & Co., Inc.	Q
Good morning, y'all, and congrats on a solid start to the year.	
Brad Phillips  Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.	A
Thank you.	
Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc.	Α
Morning, Derrick.	
Derrick Whitfield  Analyst, Stifel, Nicolaus & Co., Inc.	Q

For my first question, I wanted to focus on the EBITDA guidance. And I apologize, Randy, but just really want to better frame this setup for your business and the value of your business. From our perspective, every segment is outperforming our model and margins in Q1. And you seemingly have tailwinds down nearly every segment, including Gelnex's margin contribution in Food, Valley's margin uplift in Feed and your 4 to 1 net-net EBITDA gain in DGD margins as a result of lower fat prices. Having said that, isn't it reasonable for us to think that your 2023 guidance of \$1.875 billion is relatively conservative?

### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

My personal opinion is that it is. But I want to keep in mind that the marketplace is still inverted on fats, proteins around the world as the world expects bigger crops of everything again this year. Ultimately, as we've tried to tell people, our Diamond Green Diesel system has a very significant competitive advantage. And I think it's been obvious with the other releasers of earnings out there.

Q1 2023 Earnings Call



And so, what we're trying to do is make sure that we believe that the Diamond Green system we're trying to we're trying to forecast. I mean, we gave earlier guidance in the year of what, Sandy, about 1.2 billion gallons and \$1.25. Right now, those margins on a spot basis are quite a bit higher. Why? Because of lower feedstock. But at the end of the day, we're kind of sitting there going the – in the Feed segment, clearly our operations team has done a tremendous job of bringing in that system and getting it aligned with normal Darling operations. Our Brazilian operations are performing very well. Our gelatin and collagen business around the world is doing very well. And we're about to add another six or seven plants in the system here in the second guarter with Gelnex being integrated in. So, and then our green energy business in Europe. So I mean, yeah, there are a bit of tailwinds here, but not really. These are just solid operations that are going on now with proper risk management.

John, anything you want to add to that?

#### John Bullock

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

Yeah. I think what oftentimes we look – we're a margin management company, right? There's no doubt about it that as fat prices go up and down, that's going to have an impact on our core rendering business. But we have an embedded offset inside the system now that actually may be an embedded offset with a multiplier in lower fat price times. So at the end of the day, we're able to manage our raw material costs around our system in all of our marketplaces. And the only place where we've got any type of an embedded tremendous impact or even - not a tremendous impact, but an impact on our core rendering business is the fat segment. And now we've embedded an offset that insulates us from that. So at the end of the day, markets are going to go higher, markets are going to go lower. But we feel very, very good about how we've positioned the company to have sustainable EBITDA no matter what the market conditions are out there.

#### **Derrick Whitfield**

Analyst, Stifel, Nicolaus & Co., Inc.

That's terrific. And perhaps with my follow-up, with respect to Gelnex, could you speak to, A, what you've learned about the asset now that you've integrated it into Darling, and B, the potential synergies you see between it and Rousselot?

#### John Bullock

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

Yeah. So this is John. Yeah, I spent the last three weeks with the Gelnex team. I can tell you that the Gelnex organization is as good an organization as I've ever seen in my life. These are top professionals. It's well managed, excellent, excellent group of employees. Their plants are tremendous. Their marketing efforts are tremendous. They're just a tremendous organization all the way around. We cannot be more excited to bring Gelnex into the Darling family.

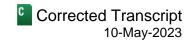
### Derrick Whitfield

Analyst, Stifel, Nicolaus & Co., Inc.

Very helpful. Thanks for your time.

**Operator:** And our next question will come from Dushyant Ailani of Jefferies.

Q1 2023 Earnings Call



### **Dushyant Ailani**

Analyst, Jefferies LLC

Hi, team. Thank you for taking my questions. My first one is on the Feed segment. Looks like you're seeing recovery in the margins which is good. I guess my question is, how do we think about the pace of recovery? I now we obviously have talked about a 1,000-day integration. Could that [indiscernible] (00:22:24) be sooner? What's a good gross margin to think about for Feed segment, a normalized margin?

**Brad Phillips** 

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

Mid-20 - Dushyant, this is Brad.

**Dushyant Ailani** 

Analyst, Jefferies LLC

Yeah.

**Brad Phillips** 

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

Say we have continuing improvements yet to be still gained in our system. So yeah, you've noticed. I mean, there is a definitely – Randy pointed out our operations guys, and what's transpired there the last two quarters we expect will continue. So I'd say in the mid-20% level, which is somewhere in the ballpark where we were back before Q3 last year.

#### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. And this is Randy. I mean, clearly you guys want to focus on Valley, but also the Brazilian rendering system down there. We've had to put procurement and risk management and spread management systems in place down there as the markets have kind of moved around here. So it's going to normalize out in the mid-20%s, as Brad says, and it seems to be very manageable right there.

We've still got work to do in the Eastern Shore plants, as I call them now. Their margins still have some opportunity to be expanded there as we learn to make different products and learn to operate plants more reliably. And then we've still got some raw material agreements that have to be modified in the coming year, year-and-a-half. But for the most part, as I said, that integration by year-end should be very, very near complete other than a couple raw material procurement agreements.

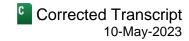
I mean, in Q1 between a fire that we had in Tacoma last summer and then in November, the fire we had in Ward, South Carolina, I expect that there was somewhere between \$5 million, maybe up to \$10 million of additional expenses flowing through the system there related to transportation and loss of margin. So the system is very complex around the world, but overall, it's being, and I think that you're seeing it in the margin management as we move forward, being done quite well.

#### **Dushyant Ailani**

Analyst, Jefferies LLC

No, yeah, I definitely see that. Thank you for that. And my second question is, in your slides you mentioned there's going to be a modest improvement, or you expect a modest improvement in fat prices in the back half of the year. So how do we think about DGD margins then? Is 2Q going to be a peak in margins for DGD?

Q1 2023 Earnings Call



#### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

So I always sit here and I have to be, I don't know, a little bit calm. You can't have it both ways. You can't tell me all this renewable diesel capacity's coming online and fat prices are going to continue to go down. And then the other side is, you can't tell me fat prices are going to go down and we can't earn a better margin at DGD. So it doesn't work that way. So long story short, and I'll defer to Sandy here a little bit, is we believe that margins for the balance of the year in DGD will remain strong. It's kind of hard to always forecast beyond the next 60 days as we've seen April now. So, but I wouldn't call them by any means a peak. What would you say, Sandy?

Sandra Dudley

EVP-Renewables & US Specialty Operations, Darling Ingredients, Inc.

Yeah. I think I would say that we don't know what feedstock prices will do. But as John had mentioned, we have a great system. And so if we see feedstock prices go down, we'll benefit in DGD. If we see feedstock prices go up, we'll benefit in our base business. So, at this point in time I don't know where they're going to go. But I know that we're going to have an advantage and it's going to be great for us, so.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. And I think the other thing we would say is, is that the system – we have a global system. We're bringing fats out of Brazil because it's the best market from our rendering plants. That's helping margins there. And we're shipping our first boat out of Europe, which should be a wakeup call to everybody in Europe. The fat prices have bottomed in Europe now as Diamond Green comes in and pulls away from the HBO or the RD guys in Europe. So that's the reason we believe fat prices have bottomed, and we think margins will remain quite strong in DGD for the balance of the year.

**Dushyant Ailani** 

Analyst, Jefferies LLC

Perfect. Thank you. I'll turn it over.

**Operator**: And our next question comes from Ryan Todd of Piper Sandler.

Ryan M. Todd

Analyst, Piper Sandler & Co.

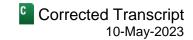
Great. Thanks. Maybe following up on the feedstock markets within the renewable diesel business. I mean, the market seemed to absorb the addition of DGD phase three without too much pain. You've got some very large capacity additions either ramping or likely to come online by the end of the year. Are you seeing any signs of material tightness on the low CI feed part of your business or improvements on the supply side at all that have helped out with that, and any other kind of knock-on effects of some of the additional RD capacity in the market that you see within that business?

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

You know, and Sandy could help me here a little bit. From my seat, the answer is not really. I mean, clearly we have shown that by locating Port Arthur and St. Charles on the water, we have the ability to originate from everywhere in the world. And that took some pressure off of the Diamond Green Diesel 3 startup.

Q1 2023 Earnings Call



The second thing was clearly we had some logistical inbound unloading challenges there that have now been remedied. And so ultimately, if you say, well, what rate were you running before and what rate are you running now? It's quite a bit higher from where we were in Q4. And ultimately we're cleaning up the amount of railcars and inbound tonnage that we had. So, Sandy, what else do you want to add to that?

### Sandra Dudley

EVP-Renewables & US Specialty Operations, Darling Ingredients, Inc.

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Yeah, since DGD 3 has been online, and we always worry when we bring a new facility online what that feedstock market is going to look like, we haven't had any issues getting feedstock. Now our mix has maybe changed a little bit. We brought in some more international supplies. Some of those are actually Darling supplies by our FASA entity, and we've looked throughout the world and found other supplies as well.

We also were able to obtain more Valley supply or, supplies through our Valley entity that we bought. So we've just, we've grown as Darling and in turn, we're able to better serve DGD for that.

### Ryan M. Todd

Analyst, Piper Sandler & Co.

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Are you willing to roughly say, like how much the Feed, in this last quarter, came from international sources?

### Sandra Dudley

EVP-Renewables & US Specialty Operations, Darling Ingredients, Inc.

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Yeah, I don't think that's something that we share.

#### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.



No. That'll move around from quarter-to-quarter, month-to-month. I mean, clearly, I think the big piece and what you're seeing like in the margin improvement in the Feed segment is, is the Valley proteins material was headed offshore; the majority was before. Now it has the ability to go there.

Relative to your other question, Ryan, on the other guys out there, we have no visibility to them. We read you guys' report, and apparently there's a lot of capacity out there that we've never sold a pound to. And we get to see the only thing – and then the soybean guys that I'm still close to are selling a little bit of RBD to them, and then they all claim to have pretreatment systems. So that's all we see here.

# Ryan M. Todd

Analyst, Piper Sandler & Co.



Thanks. Thanks for that. Maybe on a totally separate note, a follow-up on your – you said quite a bit of this in your earlier remarks. But as we think about your use of cash in the near term, you've got a leverage target by the end of the year that you'd like to hit. You're currently buying back some stock. As we think about the likelihood of a dividend, which you mentioned, do you need to hit that debt target before the end of the year before you anticipate being able to roll out a dividend? Or how do you look at the, I guess, the priorities over the remainder of this year in terms of that use of excess cash?

#### **Brad Phillips**

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



Q1 2023 Earnings Call



Yeah, Ryan. This is Brad. So, we do – as our partner said, looking at dividends from the JV, which is in concert, obviously, with our deleveraging theme by the end of the year, we are in sync in terms of the outlook here in the near term of possibly looking at cash dividends starting before, let's say before Q2's over, but certainly here at mid-year from the JV. With the margins that we're seeing now we feel very confident in that. So that's combined with what the base business is looking at.

I mean, we want to be down in that clearly below 3 times. I mean, if you're looking at investment grade, the rating agencies look at that a little bit different than our bank covenants do. So, they add back some other things into that equation. So, we want to be clearly below three times to give us that leverage and story, with the rating agencies going into 2024. So I think we would not be looking at the dividend. I think, Randy, back to shareholders here in 2023. We're going to get below 3 times, be sustainable there, then evaluate our options from there.

Rvan M Todd	
Yeah. And clearly, if we're carrying that momentum into 2024, it's a different set of opportunities that exist for u	ıs.
Chairman & Chief Executive Officer, Darling Ingredients, Inc.	
Randall C. Stuewe	

Great. Thank you.

**Operator:** The next question is from Andrew Strelzik of BMO Capital Markets.

Hey. Good morning. Thanks for taking the questions. First I wanted to ask on Gelnex, when you closed the acquisition, you guided to the contribution to this year being on the lower end of that \$75 million to \$100 million that you maybe had originally talked about. What pushed you to the lower end? How should we think about the cadence of the contribution through the year? And is there any reason to think we don't exit this year in that \$100 million, \$130 million range for 2024 that that's the annualized numbers would have implied?

#### Randall C. Stuewe

Analyst, Piper Sandler & Co.

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah, John can help me here. I mean clearly we didn't – in Q2 on Gelnex we've got a – the way purchase accounting and mark-to-market inventory, just like we did with FASA and Valley had an impact, there's a pretty good impact here as we bring over a lot of work-in-progress inventory that's been produced at Gelnex. We closed on it on March 31, so that seen, if you're a student of the balance sheet you will see it out there in the working capital or inventories.

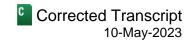
So, and I suspect we'll get some earnings in Q2 from Gelnex. We've annualize the rate right now I think conservatively at \$75 million, but that's \$75 million net of the inventory impact. Brad or John, anything that you want to add?

#### John Bullock

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

No. They're running extremely strong, obviously. The fair market value adjustment associated with inventory will have an impact on Q2, but the business is running extremely strong and we fully expect to get what we've guided

Q1 2023 Earnings Call

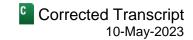


out there in terms of the earnings out of Gelnex. It's a fabulous operation, fabulous organization, and fabulous assets.

Brad Phillips  Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.	A
Yeah, and that \$75 million is not an annualized full year. That's the remainder of this year.	
John Bullock Executive Vice President & Chief Strategy Officer, Darling Ingredients, Inc.	A
That's the remainder of this year. Okay.	
	Q
Right. I completely understand that. Thank you for the color.	
Brad Phillips  Executive Vice President & Chief Financial Officer, Darling Ingredients, Inc.	A
Yeah.	
	Q
And on the all-in guidance, EBITDA guidance for the year, so I understand the math that you about 2Q. It does imply a little bit softer back half. Is that simply a function of the shift that you shipments from 1Q to 2Q? It sounds like, also, Gelnex then in the back half would be stronge other reason to think that the back half, on a quarterly run rate basis, would be softer than what 2Q? Thanks.	u talked about of the r. So I guess any
Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc.	A
I don't know how to answer that, to be honest with you, other than the sense that we see a rehere. And then we'll see from there. But we don't have any reason to not believe that we wor billion, whether that's \$485 million, \$485 million, or whether that's \$525 million as Who knows? But we're confident in our forward forecast with what we see today. But to try to no idea.	n't hit the \$1.875 and \$445 million.
	Q
Completely understand that. I guess I was just trying to make sure that I understood the puts	and takes of
Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc.	A
Yeah.	

	Q
but just if there's anything to keep in mind, that was – yeah.	
Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc.	A
Yeah, no, understand. And I guess the answer is no. There's no assumption of shipments shiftin quarter. It's Randy's rendering math.	g from quarter to
	Q
I like the math. Thank you very much.	
Operator: The next question is from Adam Samuelson of Goldman Sachs.	
	Q
Morning, everybody. Thank you for taking my question.	
Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc.	A
Morning, Adam.	
	Q
This is actually [ph] Guillermo (00:35:49) stepping in for Adam. I only have a follow-up on the interest of the Feed segment, if you could quantify the synergies realized in the first quarter and for the rest of the year.	-
Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc.	А
I don't know that we've ever – we've never put a synergy number out there. That business is sprethe United States in four or five different regions. So there was no expectations there. At the end running at where we thought we would be, and we still believe we have some more upside there	of the day, we're
So ultimately, we've done a lot of different things in that business from rightsizing people, rightsiz procurement contracts or improving them, lowering energy costs, reliability, excess trucking, exc disposal. We're making lots of progress and that's in the – and we're at our target that we showe We're at our business case of where we thought we would be. Now the rest of this is upside to us	ess wastewater d the board.
	Ω

Q1 2023 Earnings Call



That's very helpful. And if I could squeeze in another one as it regards to the buybacks, how should we think about the pace of the buybacks relative to the amount that you did on the first quarter as you also are trying to delever the balance sheet?

### Brad Phillips

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

Yeah. The spread again. So the \$44 million in the first quarter, obviously, is the softness in the stock price and early on in the quarter, as we've done the last couple of years just remained opportunistic there. That's not to say we'll remain at that cadence the remainder of the year. We'll just kind of see where the stock level is. And we're truly opportunistic there just in weighing that versus our deleveraging strategy here.

That's super helpful. I'll leave it there. Thank you.

Operator: The next question comes from Sam Margolin of Wolfe Research.

Sam Margolin

Analyst, Wolfe Research LLC

Morning, everybody. Thank you.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Hey, Sam.

Sam Margolin

Analyst, Wolfe Research LLC

You might not want to answer this question based on an answer to a previous one, but I'll give it a try. It seems like China's a story on the low CI materials supply front. And Darling has a presence in China. I'm not sure a lot of people appreciate that. But you're there. You're on the ground. I think you know the country pretty well. And it would be great to get a sense of what the addressable market is, the untapped market of UCO or rendered fat in China because it seems like it could be pretty meaningful just given the context of oncoming RD capacity and balances. Thank you.

#### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Okay. I'll let Sandy take that and address. I mean, you guys can see the boats coming in, so, I mean, there's no secret there.

#### Sandra Dudley

EVP-Renewables & US Specialty Operations, Darling Ingredients, Inc.

Yeah. I'm not exactly sure what the volume would be because I think there's more than we ever expected that there would be. As prices have gone up over time, that's brought about more fats and oils around the world that are available to us. One of the nice things that we're seeing out of Asia is that there low CI fats, that there are ISCC fats. And that's a real benefit to us.

Q1 2023 Earnings Call



And that's a nice thing as we're trying to look to go to the European market because that's one of the things that they're searching for. And so I think that the market's bigger than we ever anticipated. But to know the exact amount, I don't know.

Sam Margolin

Analyst, Wolfe Research LLC

Sure. Okay.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah, hey, Sam. This is Randy. One more little piece there. I mean, obviously I highlighted that we're bringing cat 3 fat from Europe into the US now. And someone asked us, why would you be bringing cat 3 fat other than the economics work? Why do the economics work? Because we have Chinese biodiesel now coming into Europe and making fats cheaper there. So as Sandy said, the marketplace is far more dynamic than I think probably a year, year and a half ago we probably understood. And so it's all interconnected now. But I think the key point that we want to say is, is the procurement team at Diamond Green clearly is looking for low CI fats around the world. Sandy highlighted ISCC certified, which is critical to making sure everything's legitimate there. And the question is we're not sure how big it is around the world. It continues to grow. Ultimately, if you become, in the commodity business, a high-priced island, you magically find lots of extra coconuts available to you.

Sam Margolin

Analyst, Wolfe Research LLC

All right. Thanks. That's really helpful. And then this is just a follow-up on Valley because it sounds like the integration is going well. I think you said it was on plan or according to plan. And there was some capital associated with I guess taking the facilities that you acquired up to the Darling standard. But you're in a good place now as far as margins and earnings power. And so the question is, is the Valley integration actually maybe going to be a little bit more capital light than you anticipated, which then accrues to the balance sheet and the pace of deleveraging? Thank you.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

No. I think in 2022 we rebuilt or improved our reliability through big equipment replacement in like six plants. And then by June 1 here, I think we'll have three more done here. And then by the end of the year, I think with Ward being rebuilt, that'll be the fourth one. So we're a little over from where we thought we would. It's not giant money. Maybe \$10 million this year and then a little more next year as we finish out the system. So I wouldn't characterize it as capital light.

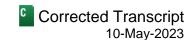
I would just say at the end of the day, it's pretty much on target. As we remind people, given the antitrust side of closing this acquisition, while we got to visit the plants, they were really pretty quick walkthroughs. And you can't really sound or see the inside of some of the equipment. Is it a little worse than we thought? Absolutely. And that was showing in our prior numbers as we struggled to keep the reliability of the system. But the team has done just a tremendous job of moving the ball forward here. And I think we're set to run now. We're feeling really good about it.

Sam Margolin

Analyst, Wolfe Research LLC



Q1 2023 Earnings Call



Got it. Thank you so much.

**Operator**: The next question comes from Paul Cheng of Scotiabank.

Q

Good morning, everyone. Granted that you have good insight in the RVO and the LCFS market and have a lot of contact in the [indiscernible] (00:42:53). So just curious then is there any insight you can share about that, how EPA may revise or not revise on the RVO proposal? And also how's the California LCFS market that, quite changes that – what you think they may do?

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Δ

Sandy, you want to take that?

Sandra Dudley

EVP-Renewables & US Specialty Operations, Darling Ingredients, Inc.

А

Yeah, I probably need a little bit more help on what your - sorry...

**Suann Guthrie** 

Д

Senior Vice President-Investor Relations, Sustainability & Global Communications, Darling Ingredients, Inc. [indiscernible] (00:43:19) RVO and the LCFS market here.

Sandra Dudlev

Δ

EVP-Renewables & US Specialty Operations, Darling Ingredients, Inc.

So with regard to the RVO, I think that what we saw is it was a little bit disappointing. I think that we're hopeful. There's been a comment period where the industry, et cetera, has provided additional feedback, comments, information to EPA regarding what actually is out there. And so we're hopeful that maybe we'll see a bump up here when it comes out on June 14.

In terms of CARB, I think that CARB is a very positive thing. And as you know, they're going through their scoping plan. And in terms of things for Darling, it's very positive, as they're looking at increasing their reduction targets from 20% to 25% or 30% in 2030. Other things that they're doing is they're also looking at proposing an LCF obligation for intrastate flights, which should be really great. And especially as we're building an SAF facility or converting our facility to SAF, we're really interested in that.

And then one of the other things that they're also doing is they're looking at an acceleration mechanism. And so if the credit bank gets too high, and we did see recently where the credit bank increased, that there would be an alternative mechanism that increases the stringency there. And we think that those are all positive things for us.

And then, maybe just a little bit back about the RVO. I think that we've had a lot of things with regard to like the Inflation Reduction Act that was a positive step forward. And I think that if we don't get those volumes with the RVO and get that stuffed up, then what we may see is we may see some stranded assets, and that would be unfortunate. And we would see that in terms of crushing plants potentially. We would also see maybe some missed opportunities in terms of SAF. And so I think it's very important that EPA is listening to folks about what the volume should be.

Q

Thank you. And the second question is that I think Sandy and Randy, both of you have said you are start seeing a lot of the international low CI feed getting into the US so it does not look like the availability of the low Ci feedstock is an issue anymore, contrary to maybe just a year ago that what we thought. And so from that standpoint, what will be the criteria, the decision-making process, what will factor into – other will factor into whether that you want to expand DGD into DGD 4.

#### John Bullock

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

Yeah. So this is John Bullock. It's kind of interesting because a year and a half ago, everybody on this call was clamoring about the fact that there was going to be no low CI fat available in the world and why in the devil would we make Diamon Green Diesel 3. And our answer was there's so much fat available at \$0.20 a pound. But when it gets to \$0.50 a pound, you may find it to be a different world because higher prices incent more reclamation of waste fats around the world. And that's exactly what we've seen.

We're very comfortable now with the Diamond 1, 2 and 3 systems, where we are in relationship to the marketplace. Our focus has been on converting part of our processing capacity to SAF because we think that's the higher value, higher margin area.

I should remind everybody, though, that we do have the space available in Port Arthur to make Diamond Green Diesel 4. And to build Diamond Green Diesel 4, we essentially preset ourselves so that we have the ability to expand. Haven't really gone into that process at this point in time, but we're certainly capable of doing it. And we'll watch the market as it develops forward over the next year or so, and then make a determination on where we at. But we like the size we're at right now. We like our focus on converting to SAF, to the higher value. And we'll see, as this fat market develops going forward, if the stuff's available.

The one point that I think we've talked about a lot here that we cannot overemphasize though, the reason this all works for Diamond Green Diesel is we have a complete operating plan. We have the supply chain, the logistics capability, and the pretreatment capability. So as these low CI fats become available, we can actually take this material and convert it into high value renewable diesel.

The fact of the matter is, the vast majority of our competitors out there can't do that. So we know they're building plants, but they aren't building plants that are designed to compete with Diamond Green Diesel.

No. That's fully understand and agree. But I still want just trying to saying that okay, what will be the precondition or that what trigger you and Valero decide to go forward on DGD 4? What is the precondition in order for that to happen?

#### John Bullock

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

A

We do a complete analysis any time we go through this. We will go through the same analysis we've always gone through, which is a tremendous economic analysis. We now understand the engineering and construction extremely well. We'll just have to take a look at the conditions. I don't know that I'm going to necessarily give you

Q1 2023 Earnings Call



a list of the five things that we're going to look for. But the one thing I can tell you, as we always say, is Darling is a for-profit operation. And so the most important thing is when we can identify returns that we can get on our investment, that'll be the number one precondition on us making an investment.

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

Yeah, I think – Paul, this is Randy. And I think it's pretty simple. I think the pause in number 4 for the venture has been, let's see the demand develop; let's make sure it's real.

And at the end of the day, we believe it's real. Clearly we're arbitraging or giving ourselves optionality in the SAF, as John said. We believe that is the next new horizon green pasture. And anybody that even starts to talk about adding whether it's a 1 billion gallons in the US or 1.5 billion or 2 billion, the promises that have been made in that global SAF market, whether it's Europe or here, far outweigh any capacity that's been contemplated.

So, at the end of the day, this thing is set very nicely for the future. And if, clearly, the SAF demand is there, which we believe it will be, that will help us then move forward to that next step of looking at number 4.

Clearly the decision before was, and I was as guilty as anybody, I told John and Sandy, I said, I want to make sure there's enough feedstock in the world because I was starting to believe you guys that we were going to have a feedstock war.

We now know that's not true. And now we're waiting to see the SAF market develop such that we can go larger in that. And that would drive, clearly, number 4. And potentially I think the most likely would be an SAF unit at number 1 and 2, and St. Charles would precede any decision on number 4.

Okay. Great. Can I just ask a real short question for John? The interest rate swap you guys exercised, did you exercise it at the beginning of the quarter? In other words then, are we going to see incremental interest expense in the second quarter versus the first?

in the second quarter versus the first?

John Bullock

Yes, that was done, Paul, right at the end of the first quarter in conjunction with the funding of Gelnex. So...

res, that was done, Paul, right at the end of the first quarter in conjunction with the funding of Genex. So...

I see. So, what's the...

John Bullock

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

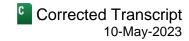
...the effect from that...

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

# Darling Ingredients, Inc. (DAR) Corrected Transcript Q1 2023 Earnings Call 10-May-2023 ...what's – yeah. I'm sorry. John Bullock Executive Vice President & Chief Strategy Officer, Darling Ingredients, Inc. There was no interest... So, what's the incremental... John Bullock Executive Vice President & Chief Strategy Officer, Darling Ingredients, Inc. ...no interest, no interest savings in Q1 from that. Right. So, what's the second quarter versus the first quarter impact on this swap? John Bullock Executive Vice President & Chief Strategy Officer, Darling Ingredients, Inc. Interest expense, there will be \$1.2 million savings there. But then obviously we have a debt increase there. So we're still saying for the full year about \$230 million of interest expense. I see. Okay. Will do. Thank you. **Operator:** The next question is from Matthew Blair of Tudor, Pickering, Holt. **Matthew Blair** Analyst, Tudor, Pickering, Holt & Co. Securities, Inc. Hey. Good morning. Randy, congrats on the strong results. I wanted to follow up on your comment that DGD second quarter is shaping up to be a record. Was that on just total volumes or total EBITDA contribution? If it's on EBITDA, it looks like that would translate to EBITDA margin of roughly \$1.75, maybe \$1.80 per gallon, so quite a step up from Q1. So I just want to [audio gap] (00:52:15) Randall C. Stuewe Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. I mean clearly, with the system running 1.2 billion gallons divided by 4, 300 million gallons now should be being produced, maybe a little more and being – depending on shipments and timings of boats. But clearly, we gave earlier guidance of \$1.25 for the year. That's kind of what we saw coming into the year in February. The margins now are clearly somewhere between \$1.50 and \$2.00. So, what we can capture of that, it's too early to say. Sandy, anything you want to throw there?

Q1 2023 Earnings Call



### Sandra Dudley

EVP-Renewables & US Specialty Operations, Darling Ingredients, Inc.

Sure. The only thing I would say is that obviously we're seeing lower feedstock costs than what we saw in first quarter. As Randy and John had mentioned, our units are running full, so they're running very well. And we'll continue to push those units as hard as we can to see what they can do. So I think it's a combination of those things.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah.

Operator: Unfortunately we have lost Mr. Blair's connection. So I will move on to Ben Kallo of Baird.

Benjamin Joseph Kallo

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

Hey, guys. Thanks for taking my question – questions. Randy, on SAF, I know it's early in the game, but could you just talk about any kind of commercial discussions, sales discussions, and how you think that plays out as long-term agreements or is it too early to tell?

Sandra Dudley

EVP-Renewables & US Specialty Operations, Darling Ingredients, Inc.

Yeah. So, this is Sandy. We've been talking to a number of parties, and we were talking to a number of parties, actually, even before we made our investment decision. We continue to do that. I don't think that we're ready to set anything in stone, and it'll probably be closer to when we're coming online before we make any agreements.

In terms of the agreements, we've always talked about the Inflation Reduction Act was really important in spurring us to make the decision to move to SAF. And now what we're seeing is we're seeing the premiums that we thought we would. And so, that's very positive, but we have no parties in particular right now. We continue to talk to a wide range of folks.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

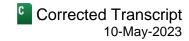
Yeah. Ben, this is Randy. I mean, clearly, that market is rapidly developing led by European procurement now. It'll spill over into the US as we move into later 2023, early 2024. And then the commercial team's going to have to decide, do you sell a little bit, sell a little bit more or sell all of it, and then move on to the decision to build the second plant. But right now, clearly there's a lot more promises out there than have been realized yet. So we're excited about it.

Benjamin Joseph Kallo

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

Sounds good. So, I did some Randy math, and it might be difficult, but if we looked at just margins in Q1 or however you want to do it, what you think they are for Q2, for Diamond Green Diesel. And then we translate it to after the blenders tax credit goes into the new program, in the IRA, where would margins shake out for you guys there?

Q1 2023 Earnings Call



### Sandra Dudley

EVP-Renewables & US Specialty Operations, Darling Ingredients, Inc.

Yeah. This is Sandy. I don't think that we know. I don't think that we've looked at that quite yet. It's going to change how things look on our P&L because it's going to be an offset to income tax. And so I think that you're going to have to start looking at our P&L probably a little bit differently, and maybe there's a more - focus on EPS rather than EBITDA at that time.

### Benjamin Joseph Kallo

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

Okay. Randy, you talked about maybe stranded when the RVO question about stranded crush facilities. Crush facilities coming online, how does that impact you? I guess better for feedstock, but what about if the end market, the renewable diesel plants don't come online and the crush facilities do come online? What's that risk? Is that the risk to your core business? Hope that made sense.

### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

I think while you can't break them completely apart, I don't know that they're totally interdependent on each other. I mean, clearly, we've never seen what's about to happen in North America on the amount of crushing capacity. Remember, we're going to grow just a little bit more, not a lot. And that seed, whether it was out of Canada in the form of canola or soybeans out of the US, were headed predominantly to China.

And ultimately, the question's going to be, do those beans get crushed here? Do they get crushed there? Do the Chinese buy finished protein instead of raw soybeans? Do they arbitrage to palm oil instead of soybean oil? There's a lot of unanswered questions here. There's probably, I don't know – I don't even know the numbers, so I'll just stay away from it, of how much crush capacity's coming online. It was all built with the belief that there would be renewable diesel demand underneath it. And that takes two forms. One would be, do you have the process to pre-treat crude soybean oil or super degum soybean oil, or do you need refined bleach?

The only refined bleach facility that's been built in the last years, and I don't know if I want to say 5 years or 10 years, has been in Quincy, Illinois by ADM. So, if the pretreatment business doesn't work for these guys, which we're skeptical of, then that soybean oil is going to have to be moved out of the country because there won't be anywhere for it to go, or the crush margins will go collapse to the point that then the beans are moving out of the country. John, anything you want to add?

# John Bullock

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

No, I think that's exactly right. I mean, the fact of the matter is, every soybean in the world was crushed before we had the tremendous increase in crushing capacity in the United States. So for all of those facilities to be filled up with something to process, we need to raise a lot more soybeans around the world. And that was always our question about the soybean expansion that was occurring out there. From a standpoint of our business model, we should be able to adjust.

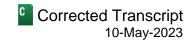
#### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Ben, the other thing is, I mean, if, like I said, and I got to be - if you believe all you sell side guys' reports on how much capacity's out there, it will use up all that soybean oil very, very quickly and then some. So, I mean, it's kind



Q1 2023 Earnings Call



of one or the other here that you got to buy. But these are clearly unchartered (sic) [uncharted] (00:58:53) waters for an international consumer that's been very comfortable buying boatloads of canola and soybeans in the past.

### Benjamin Joseph Kallo

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

Just to sneak one in and I know we're going over, over, but just Gelnex, and because collagen is becoming a bigger part of the business, could you talk about how you view the growth profile? Not this year. I know the run rate, but as you go forward on the top line. And then could you talk a little bit about margin and expectations there? Thanks, guys.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. I'll tag team this with John. Clearly, Gelnex met the criteria of the Darling business model of a great business with a great management team with great assets. And we're 100% comfortable and confident in what we procured. And their run rate supports an accretion that we're proud of. So ultimately, as we have four facilities in Brazil, one in Paraguay and one in Portage Indiana, those are all going to be integrated within the system here over time.

What's interesting is we didn't have a lot of overlap in customers, so there's going to be really some nice growth there. They are a lower cost operating model than we are. And while that's kind of hard for my Rousselot team sometimes to accept, we've got a lot to learn from them. And ultimately they look at us from the standpoint in the collagen peptides business, we were the leader and are the leader there, and how do we now move their product and their customer base to our quality of product and get paid for it?

Clearly, as Brad and Suann and I have told people, we've been on a three-year, four-year plan of adjusting our product mix from basically confectionery and pharma gelatins to collagen peptides. And they marginally have a little better margin than what we have. And you've seen that in the earnings charts that's out in the earnings call slide. Probably one of the greatest stories out there. And we don't see any slowing of that, number one, with volume growth, number two, with margin improvement and number three, with the portfolio of collagen peptide products that we have ready to launch here in the next one to two years. John, anything you want to add?

#### John Bullock

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

I think oftentimes what's overlooked is we really focus on the products that we sell. And is there going to be demand for those? And are those going to be high-value products that we can obtain good margins on? And quite frankly, what we see in the collagen space, both on the gelatin side and on the hydrolyzed collagen side, is exactly that. Same thing we saw with renewable diesel when we looked at the low CI benefits associated with that product.

These are high-value premium products that have a great natural role in either the Food or the Fuel systems. And that's going to translate into excellent, excellent margins, excellent, excellent profitability in that segment of the business. We're very excited about the future of collagen.

**Operator:** OK, the next question will come from Tony Bancroft of GAMCO Investors Inc.

Thanks for taking my question, team. Congratulations on the great quarter. You've talked about this in the past, Randy, and maybe you could just remind us and maybe potentially update us if anything has changed. But for a 30,000 for view, how much demand is there for Diamond Green Diesel? And I realize a lot of variables, but if you - obviously you've talked about what the constraint is, at least at your end, on capacity. And then if you maintain a, whatever you want to call it, regulatory growth rate and the demand, just the overall demand, how do you see -I mean, could it be a Diamond Green Diesel or SAF 8?

And in either using either of those or both of those, could you maybe just walk us through how you look at this? I mean, every one of these has been a home run. So I think as an investor you just want to try to understand what the – is there a terminal value? Is there a run rate? Is there a sweet spot for this? Maybe you can give some comments on that.

### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. And I think that's fair enough. Clearly trying to understand the global – potential for global demand, it's clearly been improving, increasing and becoming more transparent over the last couple years.

Sandy, you want to give some sweet spots there?

### Sandra Dudley

EVP-Renewables & US Specialty Operations, Darling Ingredients, Inc.

Yeah. So I think that there are a number of things going on. And as I think about it, there's no better time to be in biofuels. So, first of all, and we've talked about it a little bit earlier in this call, is CARB's scoping plan. And they're looking to increase the stringency of that plan. They're also potentially looking to add a potential jet mandate within the state, which would be great. That's just more demand for us.

We have a number of states that are now looking at LCFS programs. We have a potential LCFS obligation for jet in British Columbia. I think that recently we've seen that now we may have some mandates for SAF, for maritime fuels, et cetera, in Europe. And so I think that we're seeing more things globally there.

And then even within the states on the SAF side, we're seeing that various tax credits are being passed. And these are in like non-LCFS type states. So you have one in Illinois. There's one in Washington that's now been passed. So there's just so much that is creating more demand, adding more dollars to the supply chain, et cetera, that makes these products possible. And so I haven't ever seen this much excitement within our industry.

### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Tony, it's one of those things. You're looking around the world. And we came through a pretty strong inflation period. We came through some headwinds around the world. But yet the one unwavering thing was the commitment to decarbonization that we've seen in the world. It is not slowing. I sit there and wonder if our SAF production actually stays in the US, or it goes to Europe. We don't know yet, but we know the demand's out there. And SAF demand, whether you're talking - the LCFS and California market's clearly going to set the tone here at the end of the year by what they do under re-scoping and whether they include SAF.





Q1 2023 Earnings Call



But ultimately, if you take the 2% and 3% mandates, and I know they always seem so small when you say 2% or 3%, but on 50 billion gallons, it really creates a trajectory for the next three to five years that feels pretty darn good and makes us feel pretty confident as being the first mover and with the best assets located in the world to serve that demand.

Q

Yeah, and I guess to follow up on what you just said there at the end. Is your moat just too deep? I mean, you guys are the best. You compete the best on CI. You beat the guys at cost, input you name it. Is the moat too deep? Is there something that could be out there as transformational that would cause you to have more less competitive advantage? I mean, how do you wake up every day? How do you look at that?

#### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

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I feel very confident. I always – in a sense, I always like to be careful with questions and analysis about the unintended or the unknown here. I mean, the challenge in this is clearly – I think we said years ago, we don't really produce a gallon of fuel. We produce a gallon of compliance. And at the end of the day, when you're competing against, or potentially one day competing against people that have a choice to either produce or buy an offset in the form of a carbon credit or a RIN or an LCFS credit, economics may not always be perfect in those imperfect worlds.

So if you say what keeps me awake at night, it's when people do uneconomical things. And rather than say how profitable they were in their renewable diesel plant, they talk to you about avoidance of compliance costs. And so that's the only thing. But ultimately, I see the SAF side way offsetting anything of what I'm going to call the generic commodity producers of RD around the world now.

Sandy, anything you want to add?

### Sandra Dudley

EVP-Renewables & US Specialty Operations, Darling Ingredients, Inc.



I think you hit it, Randy. I mean, I think we're really excited about SAF. You know, it's kind of the next step in the progression that we've taken at Diamond Green. And I think the market is huge, so.

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Yeah. And I guess lastly, again, you guys sort of being a leader in this industry and in your partnership with Valero, long term, 5 years from now, 10 years from now, how do you see that partnership evolving? You talked about a dividend, but every other energy major has essentially bought what you and Valero have, and you're still the best-in-class. But how does Valero look at you in the long term?

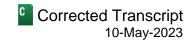
#### John Bullock

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



This is John. We have a tremendous relationship with the folks at Valero. Obviously a great relationship with Joe, and Lane has been sitting on our Diamond Green Diesel board for the last several years. We were very excited to see him be named as a replacement for Joe. He's a great guy. Our relationship throughout the Valero organization is fabulous. I think that – as I've always said, the biggest thing that's a miracle of Diamond Green

Q1 2023 Earnings Call



Diesel is this is the first time the ag industry and the petroleum industry have figured out how to get married and have their marriage last. And it's a fabulous marriage that we have with those folks. We love the people at Valero, really respect them bone deep in terms of how we work with them. So we see that relationship just moving forward fabulously.

Q

Yeah. Great job. Well done. Thank you.

**Operator**: The next question comes from Ben Bienvenu of Stephens.

#### Ben Bienvenu

Analyst, Stephens, Inc.

Hey. Thanks. Good morning. Congratulations. Just a quick one on the integration on Valley. Obviously making solid progress there. You had really strong pricing realization in the feed business, even in the backdrop of what it seems like temporarily dipping fat prices. One of the things you talked about is increasing realized fat volumes by selling to Diamond Green Diesel. Can you talk about where you are in that process and what contribution there might have been to 1Q and what incremental contribution there is going forward? Thanks.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

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Yeah. I mean – this is Randy, Ben. I mean, clearly, the Eastern Seaboard or Valley integration has been as challenging or more challenging than we had hoped. I mean, we're clearly down the road and I think we're past the critical points there. But you start looking at reliability and that comes in the form of capital investment in equipment. We're doing that. I would say that we've let attrition take over in staffing. I mean we clearly raised the cost within Valley from a people standpoint because we want a better quality person, and we're going to provide really good health and wellness benefits to keep those people. And that's been underway over the last year as we celebrate our one year anniversary.

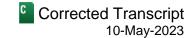
Overall when you look at the business, there was a lot of things going on in that business that weren't completely transparent to us on day one. The system was running 130 hours a week and having no time for maintenance. When you do that, you run to fail. What do you do when you run to fail? Well, you have to have bigger maintenance departments, and those are the most expensive people within the factory.

So as you increase reliability, you don't have to have that. You have better uptime. And what else happens when you break down? Now, you transport it to the next plant, and if the next plant doesn't have capacity, they transport it to the next plant. And then, by the time it gets to the third plant, it's really not very good material, and it causes you to have bad wastewater that then upsets the entire system.

So the domino effect has – I think we have won the battle with the dominoes here. And part of that's culture. Part of it's investment. Part of it's just teaching people how to operate properly. So we feel very good.

And then on the other side, we've seen an interesting move that I'd never seen in my career on the feeding of animals, especially in the poultry side where they've gone to more lysine and less feed grains and oilseeds and proteins and fats. And ultimately, what's that produce? It produces the same pounds of meat out the door, but it produces a less yielding product in the inside, to the rendering guy. And that's in the form of lower fat yields.

Q1 2023 Earnings Call



So we've had to go back per our agreements and test every raw material supplier. And those adjustments were made in March, and that's going to start flowing through in second quarter. And then ultimately, as we looked at the rendering contracts that were put in place, we've had to make some adjustments to them to where they provide a fair return for the capital that's being deployed to get that reliability. And we probably, on a scale of 1 to 10, we're about a 7 done on that. And like we've said, why the 1,000 days? Because there's two more contracts that come due in 2024 and 2025 and then it'll be complete.

So, I mean, as I said earlier in my comments, we're pretty far along and we think we'll be near complete other than a couple raw material agreements here towards the end of the year.

Operator: The next question comes from Jason Gabelman of TD Cowen.	
Okay. Very good. Thanks, Randy. I'll leave it there in the interest of time. Best of luck. Thanks.	
Ben Bienvenu Analyst, Stephens, Inc.	C

Hey. Morning. Thanks for squeezing me in here. I just wanted to ask about growth, particularly in the core ingredients business. After you fully integrate Valley Protein (sic) [Proteins] (01:13:18) and Gelnex and FASA, you're still investing in the business. So I'm wondering, what is the organic growth potential over the next couple years? And you've mentioned there's more feedstock raw materials out there available than what you had previously thought. Does that open up the potential for M&A once the balance sheet is back to a target level? Thanks.

### Randall C. Stuewe

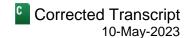
Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Yeah. Jason, this Randy. I mean, clearly, if we look back at the model that we did when we did the acquisitions in 2014 and 2015, we followed up with looking at our global footprint and then, if you will, optimizing the logistics, meaning lowering the transportation costs. So two things. One, we have to grow with our suppliers. Two, we have an obligation to make sure that the system remains low cost by having plants in the right place. We are in the process of – we'll be starting up, I think in August, a major expansion in Turlock, California.

We have a second line going into Boise, Idaho. We're in the permitting process of a brand new plant in Nebraska. We're looking at one or two plants on the Eastern Seaboard in the US. We've got a couple green energy plants going in in Europe. And I think we've got another expansion going on, or a potential expansion of another rendering plant in Brazil today with two more in the process of starting up. So globally, it's an organic build out now for the next one to two years. And from there, once, as you said, once the balance sheet and once we have visibility in Diamond Green Diesel and what we're doing there, I think our strategy has been very, very transparent to the world of how we invest capital.

We do have to always get through the cycles. But at the end of the day, when we make investment decisions, we look at 5- and 10-year average pricing, not the moment in time. And so ultimately, we're going to continue to build our feedstock to support the Diamond Green system and to grow with our customers. And that's one thing Valley didn't do on the eastern side was maintain adequate capacity as their customers were growing. So we've got some work to do there, but that's in our capital plan.

Q1 2023 Earnings Call



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Great. And just to clarify, what's the total number of plants? You kind of discussed them piecemeal, but the total number, and any thoughts at EBITDA contribution over the next couple years from that organic growth. Thanks.

#### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

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I don't know. I think I probably rattled off, what, six or seven or eight plants. I'd hesitate to give an EBITDA at this time until I see what time in starting of them is. So we'll get back to you on that.

All right. Thanks for the time.

Operator: And next, we have William Lewis Baldwin of Baldwin Anthony Securities.

Thank you very much. Just a quick one here. I wanted to get a feel, if I could, on what the trends have been in the level of protein exports, the exports of protein coming out of the US. How important is that to your protein business, Randy? And has that been growing, or what's the prospects for that, as far as your export markets?

### John Bullock

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



Yeah, yeah. This is John. So, yeah, it is a component of what we do. We move a lot of containers. We're actually one of the larger container shippers in the world with the containers that we move. So yeah, we move a lot of proteins offshore. Have some very, very good markets in some of our specialized proteins offshore to Asia. So it's a component. It's not obviously a tremendously large volume versus our overall volume, but it's a component of our demand. And we really have an excellent, excellent network and an excellent reputation in Asia on our products.

#### Randall C. Stuewe

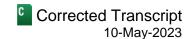
Chairman & Chief Executive Officer, Darling Ingredients, Inc.



Yeah, Bill, and this is Randy. I mean, clearly, the value of the dollar that other currencies all tend to play into some years are bigger than other years. But I would tell you, we are clearly seeing increased demand for proteins in Asia, predominantly China, today. And we're working hard. I mean, if you say, okay, everybody wants to talk negative about what we bought with the Valley plants, they had a very strong marketing network in Asia today. And that's really been – that's been helpful to us as we balance around.

Europe continues to modify rules around what can be exported versus what has to be destroyed or put into green energy. So very global market for animal byproducts. But as I said earlier, clearly, China is going to have to wrestle with what happens in the oilseed complex in North America. And I suspect that's going to open up more opportunities to alternative proteins to Asia over the coming years.

Q1 2023 Earnings Call



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Do we find ourselves competitive in the specialized proteins, the value-added proteins in the world markets, despite where the dollar is?

#### John Bullock

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

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This is John. Absolutely. Absolutely. The United States, as well as Europe, we move a lot of those products out of Europe, too. But we're primary sources for those for the world.

Q

So I guess it could be fairly safe to say then is as demand for proteins grows worldwide on a secular basis, that this market for Darling could continue to grow.

#### John Bullock

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



We have a strong focus in the pet food market on a lot of these specialized proteins. And the pet food market continues to be extremely resilient through the inflationary period here with very, very good demand. So we feel very, very good about the demand profile for a lot of our specialized products.

Thank you very much.

mank you very much

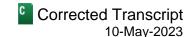
**Operator**: This concludes our question-and-answer session. I would like to turn the conference back over to Randall Stuewe for any closing remarks.

#### Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

All right. Thank you. Thanks, everybody, for your questions. Thanks, Tony. We'll see you tomorrow. We're attending a few more conferences in May, which are listed on our website. As always, if you have any additional questions, reach out to Suann. Stay safe. Have a great day. And that concludes our call. Thank you very much.

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



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