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Darling Ingredients, Inc. (DAR)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Darling Ingredients, Inc. Conference Call to discuss the company's First Quarter 2025 Financial Results. All speakers' prepared remarks – 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, Senior Vice President of Investor Relations. Please go ahead.

Suann Guthrie

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

Thank you for joining the Darling Ingredients first quarter 2025 earnings call. Here with me today are Mr. Randall C. Stuewe, Chairman and Chief Executive Officer; Mr. Bob Day, Chief Financial Officer; and Mr. Matt Jansen, Chief Operating Officer, North America. Our first quarter 2025 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 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.

Now, I will hand the call over to Randy.

Randall C. Stuewe

Chairman & Chief Executive Officer, Darling Ingredients, Inc.

Good morning. Thanks, Suann, and thanks for joining us for our first quarter 2025 earnings call. As a reminder, Darling Ingredients is a global ingredients company that operates in 23 countries and repurposes over 15% of the world's meat production and food waste. Our global presence and diversified portfolio enables us to navigate and manage through challenging times very effectively. Although tariffs challenged various supply chains, at this time, we expect them to remain immaterial to our portfolio, and frankly, support increased prices of waste fats.

In first quarter 2025, Darling's business performed very well, with results accelerating throughout the quarter. This resulted in overall positive cash flow and demonstrated stability in an otherwise unpredictable global environment. The positive narratives surrounding renewable fuels public policy is very encouraging, and margins have started to improve and normalize. Ultimately, we expect our core business to continue to perform well, generating cash and allowing us to continue to de-lever the balance sheet and opportunistically repurchase shares throughout the balance of the year.

In first quarter, combined adjusted EBITDA came in at $195.8 million, and we saw the impact of higher fat prices really starting to move through the P&L in March. Specifically, during the first quarter, we paid down $146.2 million in debt, lowering our financial leverage ratio to 3.33 times and received $129.5 million in dividends from DGD and also repurchased $35 million in common stock.

Now, turning to the Feed Ingredients segment. Global rendering volumes remained strong, and despite several severe weather events in the Midwestern United States, from flooding to tornadoes to ice storms, our US rendering team adjusted well and managed the operations very well in the first quarter of 2025. European and Brazilian operations also enjoyed improved performances in the latter part of the quarter. The uncertainty on tariffs is a minor headwind and specifically for specialty proteins. However, tariffs are generally supportive of higher domestic fat prices. With the renewables market having digested the mechanics of 45Z, we expect to benefit through higher fat prices for the balance of the year.

Now, the Food segment. We saw nice improvement in sales and volumes, particularly during the latter part of the first quarter. Collagen peptides have regained strength and the demand for our library of products is growing. Nextida, our revolutionary natural glucose moderation collagen peptide is gaining momentum, and other active peptide products are in clinical trials. We anticipate consistent and continued performance improvement in the Food segment throughout the balance of the year.

In our Fuel segment, DGD had a challenging first quarter with lower than expected margins, and volumes were affected by the turnarounds performed at DGD 1 and DGD2. Receiving guidance on 45Z in late January created a choppy first quarter as supply chains had to be redirected, contracts had to be modified, and customers had to adjust. We're very encouraged about the sustainable aviation fuel market. Interest remains strong and premiums and volumes have met our expectations. While the transition from the blenders' tax credit to the producers' tax credit created some complications, DGD has made the necessary adjustments to optimize the tax credits available, and we anticipate we will book 100% of the producers' tax credit for eligible feedstocks during the second quarter.

The effects of 45Z are in full swing, with a sharp decline in imported biofuels during the first quarter. The sharp reduction in imports, coupled with the rationalization of domestic production, points to an improved outlook for renewable diesel and sustainable aviation fuel during the second quarter.

Now, I'd like to turn the call over to Bob to take us through the financials. I'll come back at the end here and discuss my outlook for the balance of 2025. Bob?

Robert Day

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

Thank you, Randy. Good morning, everyone. As Randy mentioned, DGD's results in the first quarter had more to do with macro events impacting the biofuel market than anything specific to DGD. Meanwhile, the core Darling Ingredients business performed very well and gained momentum as the quarter progressed.

For first quarter 2025, Darling's combined adjusted EBITDA was $195.8 million versus $280.1 million in the first quarter of 2024. And adjusting for the DGD, first quarter 2025 EBITDA was approximately $190 million versus approximately $165 million in the first quarter of 2024. Total net sales in the first quarter of 2025 were $1.38 billion versus $1.42 billion in the first quarter 2024, while raw material volume was almost the same at $3.79 million metric tons and 3.8 million metric tons, and gross margins improved to 22.6% in the first quarter of 2025 versus 21.4% in the first quarter of 2024.

Looking at the Feed segment, total net sales increased and EBITDA improved on relatively unchanged volumes and higher fat prices, increasing through the end of the quarter. Specifically, total sales for first quarter 2025 were $896.3 million versus $889.8 million in the first quarter 2024. Feed raw material volumes were approximately 3.1 million metric tons for both quarters, while EBITDA increased to $110.6 million in the first quarter of 2025 versus $106.8 million in the first quarter 2024. Gross margins for the Feed segment in quarter one 2025 were lower at

20.3% versus 20.7% in quarter one 2024, which was due to certain one-time items such as inventory adjustments.

Moving to the Food segment, we began to see noticeable improvement in margins as the industry continued destocking from the inventory buildup experienced over the past 12 to 18 months. While total sales for first quarter 2025 of $349.2 million were lower than first quarter 2024 at $391.3 million, margins and volumes increased with raw material at 329,400 metric tons versus 299,800 metric tons, and EBITDA increased to $70.9 million versus $61.7 million.

Looking at the Fuel segment, sales for the first quarter of 2025 were $135.1 million versus $139.2 million in the first quarter of 2024 of higher raw materials of 374,100 metric tons versus 356,900 million metric tons (sic) [356,900 metric tons] (00:08:33), but slightly lower finished product sales volumes. Meanwhile, overall EBITDA and other metrics in the Fuel segment were clouded by DGD as a result. Specifically, EBITDA was $24.2 million in the first quarter 2025 versus $133.1 million in first quarter 2024, whereas net of DGD, EBITDA was approximately $18 million in both quarters.

Looking more closely at DGD, results were mainly impacted by four things. First, the transition from the blenders' tax credit to the producers' tax credit resulted in a lower value per gallon and a delayed reaction in RIN values as obligated party compliance has been slow to react. Second, this complexity of the producers' tax credit and delayed guidance temporarily impacted both sales and feedstock eligibility for fuel types and destinations. Three, tariffs on imported feedstocks; and four, downtime related to catalyst turnarounds at DGD 1 and 2.

Darling's share of DGD EBITDA was approximately $6 million for the first quarter 2025 versus approximately $115 million for first quarter 2024, a difference of approximately $109 million. These items had a bigger impact on DGD in quarter one than we expect will be the case going forward, however, DGD was and remains ahead of the curve with respect to making changes to its supply chain and positioning the business for success in this environment. Overall, DGD has adjusted to supply chain requirements needed to maximize the value of tax credits, and we're pleased by the positive direction in the RIN market and overall margins for renewable diesel and SAF.

While we faced some challenges during the quarter, we continue to improve the health of our balance sheet as we paid down approximately $146.2 million in debt and repurchased slightly more than 1 million shares for approximately $35 million. The company's total debt net of cash as of March 29, 2025 was $3.84 billion versus $3.97 billion at December 28, 2024, leading to an improvement in our bank covenant preliminary leverage ratio of 3.33 times at quarter end first quarter 2025 versus 3.93 times at quarter end fourth quarter 2024.

In addition, capital expenditures totaled approximately $63 million in first quarter 2025, and we ended with approximately $1.27 billion available on our revolving credit facility. The company recorded an income tax benefit of $1.2 million for the three months ended March 29, 2025, yielding an effective tax rate of 4.6%, which is lower than the federal statutory rate of 21% due primarily to the producers' tax credit. The effective tax rate, excluding the impact of the producers' tax credit and discrete items was 21.7% for the three months ended March 29, 2025. The company also paid $9.2 million of income taxes in the first quarter of 2025.

For full year 2025, we expect the effective tax rate to remain about the same at 5% and cash taxes to be approximately $60 million for the remainder of the year. We are also in the early stages of monetizing Darling's share of the producers' tax credit and look forward to providing an update next quarter. Overall, the company had a net loss of $26.2 million for the first quarter 2025 or negative $0.16 per diluted share, compared to net income of $81.2 million or $0.50 per diluted share for the first quarter.

Now, I will turn the call back over to Randy.

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

Thanks, Bob. As I said earlier, January and February started slow. But as fat prices continue to rise, we have great momentum for the remainder of the year. I'm encouraged by the performance of our core business in March. March EBITDA contribution was strong, and we expect this trend to continue. This gives me great confidence that our core business is strong enough to consistently generate cash and enable us to de-lever, effectively weathering any uncertainty that exists in the biofuels market.

Looking at the March run rate, I think the core business will earn somewhere between $950,000 and $1 billion of EBITDA for the year. As I mentioned, there has been a lot of noise in the renewables market, and while DGD did not perform as we had hoped, we believe the worst is behind us. We expect margins to improve and DGD to adjust accordingly. With that, I am reaffirming our guidance of $1.25 billion to $1.3 billion combined adjusted EBITDA for the balance of the year or for fiscal 2025.

With that, now let's open it up to questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. In the interest of time, we ask that everyone limit themselves to one question and one follow up. [Operator Instructions] Our first question comes from the line of Derrick Whitfield with Texas Capital. Your line is now open.

Derrick Whitfield Q
Analyst, Texas Capital

Good morning, all, and thanks for taking my questions. Maybe starting with the DGD...

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

Morning, Derrick.

Derrick Whitfield Q
Analyst, Texas Capital

...as I – starting with the DGD, as I understand, DGD was not able to optimize feedstocks for 45Z policy in Q1. Looking forward, what is the value of an optimized feedstock slate? And then, more broadly, what's the composition of that slate as you see it today?

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

Yeah. This is Matt. I'd answer that, at least initially, [ph] I might (00:14:16) ask some of the others maybe to join in on that. But DGD typically processes a mix of feedstocks, and that is essentially margin driven. And so, it's always procuring the best product that net the highest margin. And so, that can be a mix of all types of oils and fats. And frankly, we have all types in our recipe, so to speak. And so, that will vary depending on the month of the quarter. But it's a traditional mix that in – is largely based on animal fat and cooking oil, as well as corn oil and different bean oil and other oils. So, it's a ever-changing mix, but it's the usual suspects, let's say, in the mix that are – it's all margin driven.

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

Yeah, and I'll just add. Hey, Derek. This is Bob. It's – this is going to depend, in part, how hard we're running SAF. Obviously, the value of the PTC is higher for – the potential value is higher for SAF. The feedstocks required to make SAF are generally lower carbon intensity, so that it further enhances the value of 45Z. So, we plan on fully maximizing the value of that. As Matt pointed out, some of this, it just depends on access to different feedstocks. Obviously, at Darling, we have an advantage in maximizing what we can pull through our own network to obtain low CI score feedstocks that are eligible for PTC. And so, I think we're pretty optimistic about what the value of that is going to result in for DGD. But it's hard to kind of tell you right now what's the average cent per gallon. I think what I would say is we'd be on the very higher end of the curve for both RD and SAF as we go forward.

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

Yeah, I think – Derrick, this is Randy, and I think Matt and Bob did a nice job there. I mean, the optimism that comes out of here is really the move from the noise that we had in Q1. Remember, we didn't get guidance from treasury until January 20. We had feedstocks [ph] in route (00:16:37) to qualify that didn't qualify. There's various things as we noted in the script. There are requirements under 45Z that required us to go back to our customers and rework contracts, get them to a degree. There were three basic requirements. We won't go through them, but they had to use it or it had to go to retail and there was one other.

But at the end of the day, there's just a lot of noise that went down that allowed us only to claim a portion of 45Z in Q1. And what we're saying is, in Q2, we've got the supply chain normalized, we've got the turnarounds behind us, and we expect to recognize 100% PTC on the eligible feedstocks that we'll process. And that's not to be sleight of hand. Some of the feedstocks may come in cheaper that don't need the PTC. So, it's really, as Matt said, it's a margin driven, but we see margins improving dramatically in Q2 versus Q1.

Derrick Whitfield
Analyst, Texas Capital Q

Terrific. Makes sense. And then, with regard to Feed, we can see your March optimism and the spread between waste and SBO feeds as they materially tightened or turned positive to your benefit. Other than timing for the quarter, were there any other drivers for the lower margins in 1Q?

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

Well, I think, yeah. I mean, there's – yeah, if we compare it to first quarter 2024, it was pretty significant improvement. But there was just some things that came in to quarter four end of year type things that were somewhat one-off items that clouded a little bit. I don't know, Matt, if you want to...

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

Yeah. I think, at the end of the day, sequentially when you look at the quarter, [ph] guys (00:18:28), there were some one-offs. Brad (sic) [Bob] (00:18:30) noted in in the script that we did have an insurance settlement in there. We've got a bigger pipeline now headed to DGD than we've ever had because of the restrictions on imported feedstocks and qualifications. And remember that the euro's up, remember prices are up around the world for waste fats, and so it made domestic fats now more attractive. So, that flowed through. We said in the script, Jan, Feb, the typical weakness that we see, and then March, what we've done now is taken the March run rate and divided, because I always tell people that this is an easy business to give you forward guidance on when you're either in a flat or a rising market.

The DGD, given the amount of fat that comes out of the North American supply chain, is now – it's a very, very transparent thing for us and it's a rising market. We have somewhere between a 45- and a 75-day pipeline sold at any given time. And so, you didn't – we had that done in November, December. And so, now as January, February came in and March is when the prices are hitting, and you'll see that continue on. At the current pricing, that's where we're formulating the guidance that we're throwing out there. And I think prices have actually moved up since March even here. So, it feels – this business feels very, very solid going forward right now, barring any other craziness out of – we're going to need a little help out of DC here, but I think we're okay.

Operator: Thank you for your questions. Our next question comes from the line of Dushyant Ailani with Jefferies. Your line is now open.

Dushyant Ailani
Analyst, Jefferies LLC

Q

Hi. Thank you for taking my question, guys. The first one, could you possibly quantify how much better Feed was in March versus the first two months of the year, and then how that translates to core ingredients EBITDA for 2Q?

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

A

Dushyant, you can do the math and look at the $195 million for the first quarter or $190 million minus DGD, and then they come with the $950 million to $1 billion run rate, you can back into that. But, no, we don't break out a quarter. Second question, [ph] I didn't hear (00:20:56).

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

A

That was the only question I understood.

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

A

Okay.

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

A

Yeah.

Dushyant Ailani
Analyst, Jefferies LLC

Q

Yeah. And then, just a second one, I guess, could you quantify what the – that one-time inventory impact was on Feed...

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

A

The one-time inventory impact.

Dushyant Ailani
Analyst, Jefferies LLC

Q

...because the margins were lower? Yeah.

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

A

We don't – Dushyant, we're not calling those out. I think it's just there were some smaller one-time items. Some have been called out in the last quarter on the insurance settlement, so that's a quarter-on-quarter comparison. And to say it's sequentially lower, obviously, the numbers are what the numbers are, but there's just some one-offs on both sides of this that are – we're not calling out.

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

A

They're not material. And the guidance that we gave in February was that we – when we – as we were talking to folks and we said, well, what do you see the year off of Q4? We said, we ran [ph] $233 million (00:21:55) in Q4, we said times four. What we didn't say was it's not ratably spread over each quarter because you've got a situation of rising prices now. So, you'll see an improved Feed segment gross margin. We look at all of it. If you look at all of the segments, even in the Food segment – remember, while 20% – 17% to 20% is a high value collagen, gelatin, 80% of it's feed and fat. So, you get a lift there. You get a lift in the Fuel segment, too, because of the different products that are processed there. So, focusing on the Feed segment, in my opinion, focus on the $950 million to $1 billion run rate for the year. And that's what's important here.

Dushyant Ailani
Analyst, Jefferies LLC

Q

Got it. Thank you.

Operator: Thank you for your questions. Our next question comes from the line of Heather Jones with Heather Jones Research. Your line is now open.

Heather Jones
Analyst, Heather Jones Research, LLC

Q

Good morning. Thank you for the question. Randy, I wanted to start with – so you've seen all the Reuters rumors and we've all heard different reports. What do you think a 2026 RVO would – that would be suitable would be? Like, what is the number that you would be happy with and that would represent, you think, upside to the $950 million to $1 billion you gave us?

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

A

Heather, this is Matt. I would say that the common RVO that is expected and hopeful will be coming out here in the next few days is 5.25 billion gallons, and that is something that, I would say, across industries has been widely supported. And the feedback that we have so far is that that is gaining traction and that's what we're looking forward to.

Heather Jones
Analyst, Heather Jones Research, LLC

Q

Okay. Thanks for that. And then, my follow up is, not trying to belabor this point, but Randy, in the past, you've told us that roughly every [ph] penny in fats (00:24:09) pricing is worth roughly $12 million to $15 million EBITDA. And like, if you look at Q1 fats pricing versus Q1 of 2024, it was up several pennies, and then, you also didn't have that Ward, South Carolina issue. But yet, EBITDA for Feed was roughly flat year-on-year. So, just trying to get a sense of was y'all's Feed and Feed segment impacted by the dislocation at Diamond Green or was there something else that we're missing? I get the lag in pricing relative to Q3 and Q4 last year. I'm just having a hard time understanding the year-on-year impact.

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

A

Hi, Heather. It's Matt again. I would say, think about it this way. First of all, the – we have a forward sales book on almost all the time, somewhere on average of 60 to 90 days. And so, there's a lagging effect in this. And that's also partially one of the reasons that gives us confidence when we look at how March improved over the first two months, because some of that started to get traction. So, I think you'll see that shine through in the numbers as we go forward.

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

A

And I would add to that, Heather, remember, when you came out of 2023, we came out in December of 2023, soybean oil was $0.55 a pound. And by the time we got to Q1 in 2024, we were in a – very much a deflationary market, so we were flowing through higher prices that were coming down in Q1 of 2024. And now, we're back in an inflationary, improving market. So, they're not – as I'd say, they're kind of hard with the forward sales book to kind of, if you will, reconcile and what you're trying to do.

What we're trying to do is say, we've got 100% visibility to the March run rate. Prices are – have started to flow through in March. They're probably going to improve a little bit in April. If you look at imported fats into the US today, they're closer to $0.60 a pound. So, they're almost $100 a ton over top. What we're doing right now in the US, maybe $120. So, like I said, this is not a difficult business once you are in a flat or an improving market to get forward looks to.

Operator: Thank you for your questions. Our next question comes from the line of Manav Gupta with UBS. Your line is now open.

Manav Gupta
Analyst, UBS Securities LLC

Q

Hey, Randy. Congrats on your leverage ticking down. Going back to the guidance a little, you'll still probably need about $250 million or so from the RD business. So, help us understand little bit what you expect. Besides the PTC help that you start getting in 2Q, any help that you think you'll probably get on the CARB front? And then, what could be the RIN prices? Help us bridge the gap to that about $250 million of EBITDA that you will need from the renewable diesel business to get to your guide.

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

A

Yeah, Manav. Good question. And I think it sets the stage, and I'll have Matt and Bob help me here. And we'll give – we'll kind of give a view on the balance of the year. I mean, clearly, the Jan, Feb RIN production rate and the March suggest that the RINs have to improve. You've got capacity idled right now around the industry. The industry is behaving like it should, it's showing discipline and says, I'm not going to run and burn up catalyst for zero margin. So, where does – where do the RINs have to go? The RINs have to go, I don't know, $1.5, somewhere in there. Up $0.45, $0.50 from where they are to restart the capacity.

So, when we talk about the forward look here, the $1.25 billion to $1.3 billion, I think it's fairly conservative. And if you look at it, as we know, on the Valero call here shortly, they'll be telling you an adjusted RIN rate for the year is about $1.1 billion because of turnarounds that we had in gallons, total gallons. And you sit there and say, well, we told you we're going to earn, $0.55, $0.65 a gallon on the PTC. It's not hard to back into how we come up with the additional $250 million to $300 million in – within DGD to get to our guidance. What that says is – we're not making a statement that DGD is going to run at zero for RD for the year and then get a PTC. We're saying RINs have to improve and we're giving you a conservative forward look.

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

A

Yeah. So, this is Bob. And I think with respect to RINs, the run rate in, so far, January, February, March puts us on pace to produce about $6 billion RINs, D4 RINs. And really, we need to make $7.5 billion in 2025 to meet the mandate. So, we're still under producing by quite a bit. We've seen RINs go up by over $0.40, equivalent to $0.65 a gallon since the start of the year. So, there is a lot of momentum moving in the right direction. And it really comes down to when obligated parties feel the need for compliance as to when those RIN values get to where they ultimately need to be. So, we see a lot of support there.

As Randy mentioned in the PTC, we weren't able to realize a lot of the PTC in the first quarter due to the late guidance and having maybe not the best feedstocks in place, and some of the sales qualifications that we needed to go through to get ready. So, that's going to also be a real lift to the P&L as we go forward.

We were – the other thing we haven't talked a lot about is just the downtime. I mean, you can see the number of gallons we produced were – we were less than two-thirds of total capacity. So, that's another thing that is really going to provide a helpful lift as we go forward through the rest of the year. And then, lastly, there are a lot of positive discussions kind of going on behind the scenes around the RVO and also at CARB. And so, I think we're pretty confident in what the outlook is without those things. But if those come to pass, then it certainly could change the picture in a positive way.

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

A

I would just also include – this is Matt. I would also include that there's also the SAF component. I mean, so this is a continuous margin build with the PTC, with the RIN, with obviously fat price, all of these will influence the margins. But with our SAF production, we're also – that also gives us more confidence.

Manav Gupta
Analyst, UBS Securities LLC

Q

Perfect. Sometimes [ph] Darling (00:31:10) doesn't get enough credit for the kind of innovation you bring to the market. So, recently, you have launched some products to control blood sugar. And you also have an attractive pipeline of projects and products you do plan to bring to the market. Can you help us, walk us through some parts of that business which, I think, remains somewhat underappreciated?

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

A

So, this is Bob. I think you're referring to Rousselot and our collagen business.

Manav Gupta
Analyst, UBS Securities LLC

Q

Yes.

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

A

And you point out, I mean, EBITDA increased pretty significantly this quarter versus a year ago and last quarter. We are bringing some very innovative products to market. I think we've advertised as loudly as we can the Nextida portfolio of products and the Nextida glucose control product that is currently on the market and undergoing additional trials to really get this out in a larger way.

We love talking about collagen and our ability to innovate through collagen and put together peptide profiles that have targeted health benefits and really do amazing things for people. What's exciting from the business standpoint is that margins are significantly higher in those products. And so, as we continue to develop the Nextida GC product and other products in the Nextida portfolio, we look to see earnings in that particular segment increase quite a bit.

Operator: Thank you for your questions. Our next question comes from the line of Tom Palmer with Citigroup. Your line is now open.

Thomas Palmer
Analyst, Citigroup Global Markets, Inc.

Q

Good morning, and thanks for the question. I guess, just first, I wanted to clarify on the guidance. You noted the expectation that in the relative near term we could get some resolution on the RVO. It sounded like 5.25 billion gallons for biomass-based diesel was your expectation. I know it might be hard to be overly precise, but I just want to understand how much of this is baked into how you're thinking about the year, versus if it does come through at this 5.25 billion gallons level, that would be kind of upside versus how you're thinking about the year?

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

A

Yeah. And this is Randy, Tom. Great question, in a sense, I mean, obviously, coming off of last year, we're a little bit snake-bitten and we're being – with a pretty conservative view. I mean, DC is a bit hard to handicap right now. We've spent a lot of time there recently with our colleagues across the agriculture and energy. Feels like we have alignment on the 5.25 billion gallons. I mean, clearly, the White House needs some wins here. And I think the American farmer has been singled out as somebody that the Trump administration gets and understands and wants to support. And so, I think we're going to ride that momentum, and that's very positive.

Now, the good news is that the 5.25 billion gallons is that's a lot of demand that hasn't been there in the past. That gets friendly feedstocks, whether you're soybean oil or whether you're animal fats and waste fats. So, it's bullish to base business. That is not baked in yet. Because, remember, that doesn't start until 2026. So, that's number one.

Number two, if you start moving feedstocks up, unless you're going to get help out of RINs, if you're going to get help out of LCFS, there's still no margin in this until – at the end of the day, those are going to have to move in order to fulfill the RIN – what I'm going to call the RIN deficit that is building out there right now. So, we're setting up right now for what I'm going to call the fantastic finish in the back half of the year here, as this thing becomes a little more clear. Bob, you want to add anything?

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

Yeah. I just – one thing I think that's it's interesting that what we're hearing is talk about a gallon mandate when, historically, it's really been referred to as RINs. And so, I think there's quite a lot of confusion actually between RINs and gallons. The reality is a 5.25 billion gallon D4 mandate would effectively increase RIN demand by about 3 billion gallons in 2026 versus 2025. So, it's – that would be a substantial increase. We're not really baking that into this forward guidance. I think if that were to be clarified, we'd probably see a pretty interesting market unfold.

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

I mean, you've seen – Tom, you've seen RINs move from $0.61 at the start of the year to $1.5. But capacity, especially in the biomass-based diesel or biodiesel industry, is still fairly – is idled and negative. So, something's got to give. What the situation we're in right now is, it's not sustainable. What we know is we have the two lowest cost operating assets in the best place in the world, and they're profitable. And we know that, as we were given that guidance in Q2 here. So – but in order to restart the industry and to fulfill the existing mandate before the new mandate, you've got to bring back profitability. There just isn't enough capacity to fill the RVO even as it stands today at the margins that exist.

Thomas Palmer
Analyst, Citigroup Global Markets, Inc.
Q

Thanks. Thanks for all that color. Maybe I could just follow up quickly on kind of the last point you noted. At least on RIN generation year-to-date, it is tracking below this year's mandate. What do you think is driving this at this point? And I guess, any view on what might cause kind of a change other than obviously this RVO announcement for 2026 maybe making people more concerned about the RIN bank?

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

Yeah. And we'll – the three of us will tag team this one because – and there isn't any differing views at the table. Remember, the obligated party has all year. And Bob has always said, it's really not a futures market that anticipates the [ph] S&D (00:37:40) here. So, the obligated parties are still sitting here trying to figure out what's going on in DC. Are there going to be SREs? Is there going to be a bigger RVO?

I can tell you that that our colleagues in San Antonio, we see a tightness in RINs building very rapidly here. So, we we've got a universal view on this right now. But there's just so much noise. If you think about it, $0.61 to $1.05 is a big move already, and – but it's not enough to restart the industry. There's very limited liquidity, if you will, if you wanted to go out there and said, let's go get [ph] long (00:38:19) RINs today, there's very limited liquidity. And the obligated party is just – until they get more transparency, I don't know, what do you think, Bob? Matt?

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

I think that's right. I think for some of the obligated parties who don't have an immediate penalty for a lack of compliance, they're looking at a pretty significantly increased RIN price, and they're sitting on the sidelines. But as time goes on, that's going to be harder and harder to do.

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

A

Tom, I would just say, there's really – there's two things to watch for. Number one is just the margin in terms of what the renewable diesel and the biodiesel margin is, it would help – will dictate the production and, therefore, the RIN generation. And then, the other is imports, whether it's on importing on biofuels. So, those two things I would watch for as indicators to look for direction on RIN market.

Operator: Thank you for your questions. Our next question comes from the line of Ryan Todd with Piper Sandler. Your line is now open.

Ryan M. Todd
Analyst, Piper Sandler & Co.

Q

Good. Thanks. Good morning, everybody. Maybe a question, first of all, you mentioned a little bit earlier in your comments, but I know there are a lot of moving pieces and volatility as it stands right now. Can you talk through the impacts of the current tariff regime on the various aspects of your business?

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

A

Look, at a high level [indiscernible] (00:39:57) talking about the core business, it's probably a slight net positive for Darling. One thing, with tariffs coming in the United States, it limits availability of waste fats, and so that's been supportive to the North American waste fat prices, so that's generally good. I think the one area where it's not entirely positive is in selling protein products to China, but that less of like a tariff hit. And just – it just takes a market that was available that's that needs to be redirected somewhere else.

But the net-net really isn't a – it really isn't a negative for Darling's core business. The question really is more about how does it affect the renewable fuel industry in the United States and tariffs on feedstocks. And as we kind of re-engineer supply chains, we're just finding ways around those things. So, we don't see it as a really negative thing for our business, fortunately.

Ryan M. Todd
Analyst, Piper Sandler & Co.

Q

Great. Thanks. And then, maybe shifting to SAF. Can you maybe provide a little more color in terms of what you said – I mean, you said the demand pull has been reasonable so far. Can you walk through what sort of demand pull are you seeing? Is it – is that mostly coming from mandated markets or is that also the voluntary markets? And what would you need to see at this point to think about moving forward with a second SAF project?

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

A

So, this is Matt. So, we have a mix between whether it's the demand – whether it's the obligated or the – markets or the voluntary markets. It's pretty well balanced on that. We're running at an optimal rate to maximize the margins that we have. And our SAF sales book started more than a year ago as we were contracting SAF. So, we've got a fair bit of a book on already. I'll tell you, quite a strong book, as a matter of fact, through the whole year. And so, we're delivering on those contracts.

And so, to your question on the second SAF line, I think, right now, we need to let some of the – some of the storm clear on all the – all of these market dynamics that are going on to make a final call on that. It's something that is on the table and we've done some of the engineering work on that. But we're holding off for the time being to have more clarity on what the future holds.

The other reality is that, as the market evolves in the credit scenario, what we're seeing more and more interest in is the book and claim process. And so, it's not necessarily contracts with airlines and the distributors, but there is a book and claim process that where the – some of the tech high energy users are buying the Scope 3 credit.

Operator: Thank you for your questions, Ryan. Our next question comes from the line of Pooran Sharma with Stephens. Your line is now open.

Pooran Sharma
Analyst, Stephens, Inc.

Q

Hey. Thanks for the question. Just wanted to get a sense of capital allocation priorities from here. Looks like you did do a little bit of deleveraging also with the share repurchases. But just wanted to talk about something you said on the last call. I think you mentioned your target is 2.5x. Wanted to get a sense of when you think we could get there and what the pace of deleveraging investors can expect going forward.

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

A

Yeah. Thanks. This is Bob. That's correct. I mean, first, I'd just say that our plan hasn't changed. We are focused on continuing to pay down debt and de-lever our balance sheet. We've made a lot of progress to that end recently, and we will continue through the rest of the year. We'll get pretty close to that 2.5x by the end of the year. We may not quite get there, but we'll – it'll happen early 2026 if it doesn't happen by the end of the year. That's really what we're seeing.

Pooran Sharma
Analyst, Stephens, Inc.

Q

Okay. Appreciate that. And just really wanted to – I think everybody's asked good questions about DGD. Maybe I could focus in on the Food segment here. Really good margins, much higher than anticipated. You kind of spoke to some of the strength here, but wondering if you could share some incremental color. And do you think that this is a level of gross margin performance that you can sustain here? I think, last time – on the last call, you said you were working with CPG customers to help them better educate their customers on this product. So, was just wondering if you could just give us a overview on Food and Nextida there?

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

A

Yeah. This is Bob again. So, appreciate you bringing this segment up. It's a – it's an exciting one for us here. I think, on a high level, what we've seen is an industry that has really gotten a little bit more healthy here as low – let's say high cost production around the world has stopped making product and they've begun to destock inventories. We've seen some announcements that some of the higher cost areas of the world have decided to shut production down, and that's just led to an overall better health in the gelatin market and the collagen market. So, we think that we're in a pretty good spot as we go forward.

As far as Nextida, we do have a product on the market under a brand called the Codeage, C-O-D-E-A-G-E, and the Nextida glucose control product is inside that product. We are going through some trials that we should finish this summer, and that's with a much larger sample size that would allow the larger CPG companies to be comfortable taking this product to market. So, really, what we're expecting is to get through that process, go through some commercial activities to be able to see this product in much higher volume as we kind of get near the end of 2025.

Operator: Thank you for your questions. Our next question comes from the line of Andrew Strelzik with BMO. Your line is now open.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Hey. Good morning. Thanks for taking the questions. My first one is just on the comment you made that we could get the preliminary RVO in the next couple of days. I guess, what informs that view? Do you have some visibility to that? It sounds like there's, based on your comments, still some uncertainty around maybe the SREs. So, could we get a preliminary number without a resolution around that? Just curious about that comment specifically.

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

A

Well, let me – if I did say next couple of days, I guess, I wouldn't try to be that exact on that. I really...

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

A

You did say next couple of days...

[indiscernible] (00:47:27)

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

A

Okay. Well, I think in the coming days is probably a better description of that. And I apologize if I came out too soon on that. But we are optimistic on that. We – but in terms of having special insight or anything that gives us any confidence more than what other people who are industry participants, I would say, we don't have any extra knowledge in that regard, but we do have – we remain optimistic about the volume, as well as the timing.

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

A

Yeah, Andrew. The discussions are...

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Okay.

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

A

...clearly happening in DC. We're part of them with a larger group. There's a – there is a – the first time in my career since 2007 that we have absolute alignment amongst a high majority, if not the – 90% of the trade groups in this on what should happen here. And we have a President that also is now – realizes that the American farmer is important. So, my view is, is that I think you'll see something out of DC here somewhere in the next 45, 60 days, maybe sooner. But they're all working on it, and it's just a lot of different moving parts there. But everybody, at least, is reading off of the same song sheet right now.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

Got it. Okay. That makes sense, and I appreciate you clarifying that. My second question, I feel like – we felt like the runway was there for – with all these drivers and better performance for the last couple of quarters. And so, I guess, I'm just curious kind of how you handicap the risks. I know most of this is kind of industry-related and macro-related. But as you sit here today and taking the margin and just kind of extrapolating that makes a lot of sense, how do you handicap the risks or what are you paying attention to on the risks around the guidance?

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

Look, this is Bob. I think guidance around the core business is, the risks are relatively low. With the market that we're seeing today, certainly things could change. But typically, these are sort of momentum-driven markets and they're pointed in the right direction. So, I think it'd be pretty low there. As it relates to biofuels, there's certainly – there's going to be more uncertainty there just because it's so influenced by policy and there's so much going on behind the scenes. We give guidance today based on what we're seeing and all the things that we've explained. But that's one that could be affected more by things outside of our control than our core business.

Operator: Thank you for your question. Our next question comes from the line of Matthew Blair with TPH. Your line is now open.

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

Thank you and good morning. So, regarding the new LCFS standards in California, I think the comment period just ended a few days ago and we're waiting for CARB to resubmit the new targets to the OAL. Is that your understanding as well? And then, perhaps more importantly, do you have a view on the implementation timing for these new targets? Do you think they'll be backdated to January 1, 2025, or is an implementation date in 2026 more reasonable at this point? Thank you.

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

Hey. Good morning, Matthew. I would say that, particular to your question on the timing, the – yes, the comment period ended on Monday. And we understand there's 30 working days to provide some analysis. There's going to – they have to go through a process in order to address the comment. We understand that's ongoing. And we remain optimistic that the – this was – is on track, and we're going to see something come out definitively in the reasonably near future. I don't want to get [indiscernible] (00:51:45) – yeah, yeah. So, we think that's on track. And so, now, whether that is going to be retroactive or effective in sometime mid-year or first year, that's a question we can that's a question we continue to ask. I think we're prepared no matter what. But I think, in my view, a worst case scenario would be January 1 of 2026. But there is a chance, from what we understand, of having something [ph] sooner (00:52:11).

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

Great. Thank you. And then, for DGD, you reported Q1 EBITDA was quite a bit different than what your partner reported. It sounds like there is at least some 45Z contribution in your number, which may not be in your partner's reported number. But could I also clarify, is there any LCM impact in your Q1 DGD EBITDA? And if so, how much?

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

Hey, Matt. This is Bob. Yeah, I mean, we were – we see a pretty big difference there. I think one thing I just want to make really clear is that none of the difference has anything to do with recognition of 45Z. Historically, we have shown – we report LCM differently. So, I think that's the way to look at it. In particular, the first quarter had a lot of volatility in both LIFO and LCM. The big difference between our number and what Valero is showing is with the LCM.

Operator: Thank you for your questions, Matthew. Our next question comes from the line of Betty Zhang with Scotiabank. Your line is now open.

Betty Zhang
Analyst, Scotiabank
Q

Thanks. Good morning. Thanks for taking the question. I'm sorry to go back to this, but I was wondering, for the PTC that was recognized in the first quarter, can you share how much of it was recorded?

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

I think, we would sort of roughly say that we – so, we'll show this in more clarity in the 10-Q, which will come out in a couple of weeks. But we were roughly able to realize PTC on about a third of the volume that we had in the quarter.

Betty Zhang
Analyst, Scotiabank
Q

Great. Thank you. And for my follow up, so we saw there were some buybacks and you also paid down some debt. I'm wondering, going forward, how do you see that split? How do you view allocation going forward?

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

So, it's Bob again. We're focused on paying down debt. I mean, we'll opportunistically look at buying shares back when we can. We want to buy back our dilution. So, we did some of that in the first quarter. But the lion's share of the capital we spent at that way was towards debt pay down, and we'll continue to focus more on that.

Operator: Thank you for your question. Our next question comes from the line of Jason Gabelman with TD Securities. Your is now open.

Jason Gabelman
Analyst, TD Securities (USA) LLC
Q

Morning. Thanks for taking my questions. I was one of the people who thought there was a different PTC booking versus LCM with your DGD partner, so appreciate that clarification. The first question's on the PTC monetization. And I guess, it seems like some of, if not all of the distribution from DGD that you booked in 1Q was related most likely to timing of blenders' tax credit, cash inflows. So, as we look forward, I would suspect the distributions are tied to monetizing the producer tax credit. So, with that in mind, I was hoping you could provide a little more context on the steps involved and what we should be looking out for in terms of progressing the ability to monetize that. Thanks.

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

A

Yeah, Jason, this is Bob again. So, just to kind of touch on something you said, I think, distributions from DGD. I mean, certainly the PTC – realization, monetization of PTC is one source of revenue that we will realize. But whether it's bigger or smaller than distributions for DGD, it ultimately is going to depend on the size of renewable diesel and sustainable aviation fuel margins. Wouldn't rule that out, that we get more that way. But we'll see how that plays out.

As far as the process around monetizing the PTC, it's moving forward, I would say, very efficiently. As our – as it is with these types of processes, there are a number of steps, brokerage firms involved, counter – lining up counterparties, getting contracts kind of ironed out – terms – legal terms ironed out. And we're going through that process to be able to set up for, let's call it, some sort of an auction to be able to sell those credits and monetize those in the latter half of the second quarter.

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

A

But we would going forward [indiscernible] (00:57:12)...

Jason Gabelman
Analyst, TD Securities (USA) LLC

Q

Okay. But you don't need any further guidance or anything from the – yeah?

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

A

No.

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

A

No.

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

A

No. And going forward, we will expect to capture 100% of the qualified feedstock PTC.

Jason Gabelman
Analyst, TD Securities (USA) LLC

Q

Got it. Great. My follow up is just on the strength in feed prices. And I understand that it's a benefit to the Feed business, you have the sensitivity of $0.01 per pound. It's worth $15 million of EBITDA. But I would imagine, all else equal, those fee prices moving higher are actually a headwind to the DGD business that outweighs the Feed business. So, is that correct? And then, further to that point, could you just talk about what exactly is driving the waste oil strength? It seems like they're pricing above their carbon intensity difference to vegetable oil. So, if they're at kind of a sustainable premium to vegetable oil or if they need to come down a bit? Thanks.

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

That's a great question. I – there's an inherent premium in the waste fat compared to the soybean oil that – in the – you can even see it in the CI scores. And so, that's reflected in the pricing. And so, that's the simple answer to that question. The other reality is there's only a certain amount of US produced animal fats that's available in the market. And so, it's in demand right now for good reason. And so, that's also part of the price differentiation that we're seeing between that soybean oil.

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

Yeah. And this is Bob. Just – and one of the other reasons is crop oils aren't eligible for all types of biofuels. So, there is that element as well where a used cooking oil, a verified used cooking oil, certified use cooking oil is eligible for pretty much any type of fuel, whether it's biodiesel, renewable diesel, sustainable aviation fuel, regardless of the destination. So, some feedstocks just do have more versatility and then they, therefore, may trade above their carbon intensity adjusted value.

Operator: Thank you for your questions. Our next question comes from the line of Ben Kallo with Baird. Your line is now open.

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

Hi. Good morning to you all. If – Randy, if everything stayed the same today, how would the core business be in Q2? I'm just trying to figure out the cadence of EBITDA for the core business, not DGD. Thank you.

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

Hey. Hey, Ben. This is Bob. I think, what I would probably do is I would just say that we don't expect quarter two to look a lot different from quarters three and four. And so, if you just take quarter one, subtract that from the guidance, that's probably the best way to do the math on that.

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

Okay. Thanks.

Operator: Thank you for your question. That concludes our Q&A portion for today. I would now like to pass the conference back to the management team for closing remarks.

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

All right. Thanks, everyone. Thanks, Victoria. Thank you for your questions today. If you have any other questions, please reach out to Suann. Thanks for taking the time to be with us today. Stay safe and have a great day, and talk to you here next quarter.

Operator: That concludes today's call. Thank you for your participation and have a wonderful rest of your day.