

Company Name: Darling Ingredients Inc. (DAR)
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<<Justin Jenkins, Analyst, Raymond James>>

Hey everybody. My name is Justin Jenkins. I'm one of the research analysts here at Raymond James. Appreciate everybody joining us today. We've got Darling Ingredients as the next presentation slot. I'm going to do a fireside chat format with Randy Stuewe, he's the CEO, and Bob Day is the CFO. Just from a high level perspective, Darling Ingredients has been one of my favorite names in my coverage universe to play two big themes.

One is the recovery of the renewable diesel space. And then two, it's the integration value of what they bring to the table in terms of being integrated in the upstream business that they've got all the way through that renewable fuels business.

And so, with that intro, Randy, maybe if you could just give kind of a five-minute overview of how Darling came to be and what the overall strategy for the company is.

<<Randall Stuewe, Chairman and Chief Executive Officer>>

Okay. Well, number one, it's good to be back and with you, Justin, and share with people. As I like to share the Darling story as the Darling story for me started in 2003, really taking over a broken animal byproducts recycling company that picked up a little bit of used cooking oil. And what I learned in the business was it was very much family-driven, success event-driven company in the U.S. and abroad. Ultimately as we look back, we started to assimilate the platform over the last 20 plus years. About every five years, 2005, we doubled the size of the company. 2010, we doubled the size of the company. 2015, we doubled the size of the company.

And ultimately, in 2013, we added the hydrocarbon business to it. And then again here after post-COVID, we once again nearly doubled the size of the company in the 2022 era. So what we've built now is the largest slaughtered animal byproducts repurposing company in the world. If you think about it in the number of animals, about one out of every six or seven animals in the world finds its way through our factory after the consumer meat has been removed. And then our job then is to repurpose those waste streams, if you will. We don't like to call them waste, but to turn them into very, very useful food, feed, and energy products.

The thing that Darling brings to the world is very simple, the two things the world needs, food and energy, and we play a very critical role in that. In the food side, it's very easy to think. If we can find higher and better uses for those byproducts, which consist of either a one-third to one-half of the animal, you ultimately will share that value back with the producer, and you create a more favorable economical or affordable supply of meat in the world. So we think we've played a critical role in that. Energy, while maybe the narrative has slightly changed here under the new administration, we have a feedstock that we produce that for most of you would know as animal fats. Animal fats were in favor in the 80s, if you will.

The McDonald's French fries were cooked in them at the time before, heart health became a more concern at the time. And then basically animal fats ended up in chemical, but then they were replaced by palm oil. Animal fats were relegated then basically as a caloric alternative in animal feeds. And the creation of the mandated green energy businesses in the world once again gave animal fats a chance to participate as kind of – as a feedstock. And clearly, as we've always said, Darling globally possesses the largest oilfield of low carbon intensity feedstocks in the world. We invested in the Diamond Green Diesel set of assets with our partner Valero in 2013.

As we reminisce back a little bit on it, each of us brought about \$223 million to the party, threw it in the center of the poker table at the time because it had never been done. 12 years later, it's returned about \$6.5 billion, \$7 billion of cash to us. As we look at the business today, we've built the largest global platform in the world. There really isn't a number two in the business to convert animal byproducts into higher and better uses. Diamond Green Diesel or our hydrocarbon business, which sometimes gets a little too much conversation, is just a way for us to add value to our fat stream and so kind of that's where we're at today.

<<Justin Jenkins, Analyst, Raymond James>>

So how did the joint venture with Valero start? Back in 2013, the world was quite a bit different than it is today in terms of a renewables policy backdrop. How did you guys get the idea to form this business?

<<Randall Stuewe, Chairman and Chief Executive Officer>>

Well, at the time, and really this was 2009, there was a couple things going on. The Energy Independence and Security Act of 2007 went in place and started to mandate biofuels, both ethanol and basically at the time called biomass-based diesel or biodiesel.

As you can imagine with anybody that's ever been around animal fats or at the grocery store, you see that block of lard or manteca, whatever you want to call it in the store, what happens when you get below 50 degrees? It gets hard. To make a biofuel out of animal fats, while it can be done and it makes a fairly decent product, it's really not a usable product 12 months, seasonal climates that go hot and cold.

So as we started to look at it, and really at the time, I still remember, I was quoted as saying our goal was to get respect for animal fats. Here we were trading \$0.10, \$0.12 a pound cheaper than soybean oil. And I said, if we can only get the soybean oil parity, what a great business this will be for our shareholders. And the only way that I could think we could get there was to create a new market. And so we had to find a technology that allowed us to participate in that market. The biofuel market was evolving.

We were brought the technology from Honeywell, from their green energy division called UOP. We were serial number 01. It had never been done. And the history is the history now, and we magically have turned the black box, if you will, into three mega plants that convert or can

convert about two-thirds of the animal fats, waste fats in North America into green hydrocarbons.

And so ultimately, if you say, was it a good decision or bad decision? If we didn't have those assets today, and let's just assume no one else did, then animal fats would be worth half of what they are today back as animal feed. We think we've created incredible optionality and value to our shareholder to have, to own the arbitrage between animal feed and energy.

<<Justin Jenkins, Analyst, Raymond James>>

Randy, what's the capacity of Diamond Green Diesel today? What's the business mix, if you will, of DGD today and kind of how you envision it in the longer term? And then what does Darling bring to the table? What does Valero bring to the table that makes this joint venture work?

<<Randall Stuewe, Chairman and Chief Executive Officer>>

Yeah. When the marriage took place, we had the feedstock, Valero didn't. The technology was clearly erring towards Valero's capabilities and today their subject matter experts continue to provide the knowledge to operate the plant. These are very dangerous, high pressure, high temperature plants. Lots of hydrogen used to, if you will, super saturate or hydrogenate the product in order to break off the gases and make a liquid. So we brought this global footprint of feedstocks. We were in a carbon intensity discussion world, which Darling had that position. We brought a game of equals.

And I would still tell you today, everybody I'm sure in the room can talk about one joint venture they've been involved with that had an end to it. This one has a relationship that's built on values and openness and transparency, and headed to 13 years, I don't see an end because we bring equals together. The plant started as number one at 137 million gallons, was quickly debottlenecked to 160. Then a second train was added or a second plant for another 275, so you got 435 million gallons sitting in Norco, Louisiana. And then you added another 500 million gallons in there. Today we call the system roughly it ran 1 billion, 1.1 billion last year.

It can run up to 1.3 billion. The game here is catalyst life and utilization. While we've pegged Q1 at 260 million gallons, that's because we have a turnaround going on right now. Number two, we're preparing to run if the margins are there to run wide open here for the balance of the year.

<<Justin Jenkins, Analyst, Raymond James>>

Maybe we'll get back to margins in a bit. I want to go back to the core business, the rendering business. Maybe walk through the drivers of the feed segment at a high level if Bob, you want to take that one.

<<Bob Day, Executive Vice President and Chief Financial Officer>>

Yeah. Absolutely. So rendering business, as Randy explained earlier, we're taking the animal byproducts and essentially what we're doing is we're separating. We're evaporating water, and

we're separating fat and protein. The underlying value of that business is interesting irrespective of product values, because this is a required service for any society. We can't take these streams into landfills anymore.

And the other thing is that these products have 60% moisture, so they can't travel very far economically. So the reality is in our business, as many companies experienced through the COVID economy, is that inflation was very high and the cost of construction doubled or tripled during that time. As we are negotiating contracts with suppliers, we really need to be negotiating on the basis of replacement cost of assets. That generates very good returns on invested capital from assets that were previously purchased. In addition to that, when our product prices are higher, we also earn higher margins.

And so because of the environment that we're now in, expecting a finalized RVO in the month of March, we're seeing soybean oil and fat prices increasing. That's leading to higher margins for us. We do have a value share component with our suppliers on that margin component, and so we're – the outlook is very positive.

<<Justin Jenkins, Analyst, Raymond James>>

I think the focus of investor conversations tends to focus a lot on DGD and maybe not as much on the core rendering business as we should. Maybe talk at a high level on the food segment in particular, because I think there's a lot of interesting drivers that investors might not really remember at this point.

<<Randall Stuewe, Chairman and Chief Executive Officer>>

Yeah. Bob can help me out here a little bit. As we always say in our conversations, even today, we remind people, say, what about the other \$1 billion of earnings that we have? And the core business was built around providing services through the slaughterhouse, the abattoir, the grocery store, small locker plants around the world.

And ultimately, when we started to say, how do you segment that to explain it to shareholders. While we would say today we kind of have the three Rs of rendering Rousselot, which is our collagen gelatin in the renewables business, we would say in the rendering business, ultimately we have a food business in there. So as the animal is prepared or in process of slaughter, there are different components of that animal that can go to the food chain from the fats through the ultimately to the casings business to the bones and skins that can be processed into gelatin and collagen. That's the food segment, million tons plus of our business.

And then the feed segment, clearly if you can't feed it to a human, but you can feed it to an animal, that's the feed segment. If you can't feed it to a human, an animal, you have to destroy it or convert it into a BTU. That would be what we call the fuel segment where we convert. As we said earlier, we got food for humans, food for animals, and energy, the two things the world needs. The food segment is really fascinating for us. As we looked at it and forming, I'll kind of transformational take you to the original thinking, was that we thought, well, segmenting the

company by food, feed, and fuel, the feed segment being the largest would probably get a general ag multiple.

The food segment should get a specialty ingredient value, and we all know that the fuel businesses would get a lower value. And so we thought that we would then be a premium to the world ag multiple, if you will. That was the dream. That was Randy's bad assumption. I take full credit for that misstep.

Today, the food business has really developed into something special. And really the business was in 2015 when we first acquired the gelatin business, it was basically about a 92,000 ton business at the time. I know tons seem like a lot. What is gelatin? Most people know gelatin. You think of JELL-O, JELL-O, gelatin, and other people think of a gummy bear. Anybody like you, Justin, that had a hangover today probably took a gel cap of Tylenol or Advil. You got pharmaceutical uses. You got confectionary uses. The original foundation of the gelatin business, believe it or not, was the film business. Kodak used it to coat the original film before we hit this digital world.

And so that was kind of the genesis of it. As we look and ultimately gelatin is a binder, an emulsifier, a thickening agent. It binds water or solution with whatever else the application you're trying to do. As we started to look at the collagen, so collagen is the raw material. Gelatin is a production method of basically chilling it, drying it, milling it, and then separating it into its value of thickening agent, the bloom. The higher the bloom, the more viscosity that you can get. So in the business today, as we looked at the raw material being collagen, collagen has been identified as having significant health benefits, health and wellness benefits.

Approximately, it's almost been eight, nine years ago, we started a process to segregate, isolate collagen, enzymatically convert it, and turn it into a water-soluble product. So as I told you, drying it, rotating it, and drying it makes it an emulsifier, kind of flipping the molecule over and spray drying it, makes it water-soluble. It got to go into a lot of health and wellness applications. For most in the room, in North America, you would have known the product out there in the blue jar called Vital Protein. That was us. That was a bit of luck, a bit of relationship, and a huge success. And the relationship tied back to the founder who had joint problems, loved to run, and he called one of our salespeople and said, "Hey, can I get some of that collagen I hear you guys are working on?" And he started to take it, and eight weeks later, he had lubricity again in his joints. Magic story. Got to believe it's true. He launched the business, long story short, after about seven to eight years, Nestlé Health Science came in and bought him out. As the joke, as I tell Justin the joke all the time is, "Hertz in Aspen, Randy's still working."

So probably should have invested in the brand at that time, but we didn't. That's not our foray. That's collagen. That was the 23-25 different peptides that are in there all in one for one application. 2.0 now is segregating those peptides or those aminos and breaking them down for specific targeted use. Number one that's in the market today is, what we call our Nextida. It's a brand produced by Rousselot called Nextida GC, glucose control. Ultimately, if you think of what happens to your body as you ingest lunchtime here, you basically get a sugar spike in your body, and different bodies process, sugars different ways.

Ultimately, what you're trying to do here with the product, with the Nextida GC is to level that off, and we're seeing a 42% reduction in that spike, if you will. That's very, very similar, if you will, to the GLP-1s that are out there that are injectable. This is a naturally occurring non-pharma protein. So it's in basically year – it's full year one right now, but we're in second year of that launch. This summer, we've identified that it's completed in process of completing clinicals, brain health. Then there's a women's health, there's a gut health, there's a hair, there's a nail. It's really, really exciting. So you're going to say as a shareholder, well, number. You got two questions. One is, why is that in your fairway?

Well, number one, it comes from a cattle bone, a pork bone, a pig skin or a beef hide. That's in our fairway. We're the longest and oldest producer in that business, especially in the collagen peptide area. It's very naturally an extension of our business. Now as we go forward, the gelatin business, pretty good margin, but lower margin, collagen at the macro sense is a two times better, and then we're not sure where these specialty peptides will sort out. They have different applications, different uses. When you start looking, they compete in that wonderful supplement world that is pretty much the wild west of unregulated claims. We're trying to put science with it to make sure as the CPG companies look at this, that they're comfortable launching it clearly. Nestlé was comfortable with Vital Proteins, we're trying to get all the CPGs companies comfortable in backstopping this thing. We just think we've got an incredible growth platform in that business.

As I said, 92,000 tons. My first challenge to the guys when we had that business was get it to make \$100 million of EBITDA. It did. Now it's hit \$250 million to \$300 million, and we haven't even launched the Nextida product line in full strength yet. As Bob reminds me, if we're just half as successful as we were in the Vital Proteins collagen peptide cross, we'll double the EBITDA of that food segment over the next three to five years. So it's hugely exciting to me to have a chance to take what was considered a waste stream that could be ground up and fed back to a chicken to know that we're impacting health and wellness now.

<<Justin Jenkins, Analyst, Raymond James>>

That's super helpful, Randy. I think if we go back to the DGD business, look, obviously it's been a rough couple of years in the renewable space, but does seem like we're turning the corner. Policy looks like it's going to be favorable here in the next couple of years. Maybe just talk through what you're expecting for policy outcomes from the U.S. government and what that means for DGD's margins.

<<Randall Stuewe, Chairman and Chief Executive Officer>>

Yes. Let me just start by saying, though, it, we have been through a low margin cycle in that industry, but commodity businesses, there's a saying, the best cure for low prices is low prices, and high prices, high prices. Typically, when you go through a period like this, you see a halt in investment and S&Ds tighten up, and that's exactly what we're seeing. So we're living through the downside of the cycle. We got great news last week that the EPA sent over the RVO proposal to the Office of Management and Budget. Their job is to review that proposal, make sure that they can execute based on what they've proposed, and if everything looks okay, they send that

back for approval and ultimately putting the RVO into the federal registry, and now we have an RVO. We're expecting that's going to happen by the end of March from all indications. We're hearing, very encouraging news about what is inside that RVO. It hasn't been made public, but the mandated volume for advanced biofuels is substantially higher, reportedly anyway, versus what we had in 2025.

All the issues around SREs and reallocations of those SREs and how they're going to handle feedstock imports and foreign fuel imports, all that really comes together into what's the most important thing for us, which is an increased mandated demand number for U.S.-produced biofuels. And what we see is a number that's substantially higher than where we've been. That really points to a margin environment that needs to get to a level that incentivizes idled capacity to get back up and running, and that's a lot better than where we've been. As Diamond Green Diesel being very agile and well-positioned, it points to margins that are very healthy for our business.

<<Justin Jenkins, Analyst, Raymond James>>

So if I change to financial metrics here, you gave first quarter guidance on EBITDA at \$240 million to \$250 million. That excludes anything from Diamond Green Diesel. What's kind of the moving parts of how we're expecting the first quarter to shake out here?

<<Randall Stuewe, Chairman and Chief Executive Officer>>

Yes. And Bob can help me here. I tried to do Randy math for everybody. Q4 was \$277 in the core business. We had an extra week. We're a 52, 53-week filer. Divide by 14, multiply times 30. Pretty simple, right? You always clean up the balance sheet at the end of the year with the actuarials and other things. So maybe there's \$4 million, \$5 million, \$6 million of stuff that isn't recurring. So that's where we said at the run rate that we were at in fourth quarter, a normalized run rate would be around that \$240 million to \$250 million. We did see fat prices dip pretty hard. The euphoria of the RVO in November was starting to build pretty – everybody kept expecting it.

And then when it didn't come, you're also in wintertime, where once again, once I told you earlier, animal fats get harder in the wintertime. There aren't a lot. We've got the only machine in the world that can really run them. And so ultimately, fat prices backed off, whether it was soy, whether it was animal fats. We all went down. Now they've rallied very sharply, which would then set up a Q2 for being should be materially better than what Q1 is. That, that's the way we came up with it.

Just carrying the numbers forward aside from crazy tariffs in, out, war. Still trying to digest that today. For those that live on the East Coast some pretty significant weather for the North American business. We've had a strong European business. We have a strong South American business. We got a Chinese New Year. So I kind of throw the things that happened in first quarter that always influence. It builds throughout the year. And I think the environment is setting up very, very nicely. DGD, we just said there's just too many moving parts. So 285 million gallons in Q4, 260 million gallons. Why? We're in the midst of a turnaround. There's no

secrets out there. We're set up with new catalyst across the line to really take advantage of what Bob described, and I believe is a very positive and constructive margin environment for 2026 and 2027.

<<Justin Jenkins, Analyst, Raymond James>>

Randy, Bob, you've both said that 2026 is a year for debt reduction, for de-leveraging. Maybe just talk through the overall capital allocation process of how Darling thinks about the world?

<<Bob Day, Executive Vice President and Chief Financial Officer>>

Yes. So we're very focused on the current status of our balance sheet. We've got around \$3.8 billion in net debt. We could talk about debt coverage ratios, but debt coverage ratios are also affected by EBITDA levels, and EBITDA can move up and down, certainly with Diamond Green Diesel quite a bit. So I like to look at it as what's sort of a net debt number that we feel comfortable with. We'd like to get below \$3 billion in net debt. I think in a conservative EBITDA environment for Darling, that's 2.5 times or better. So that's really what we're pushing towards. Once we get to that level, then we can reassess and see where things are and what makes sense for the business.

We've been in sort of somewhat of a period of uncertainty as we wait for RVO policy. So the focus has been just clearly on let's continue to pay down debt. If we're successful generating enough cash and we can get that number down to \$3 billion, and we see a good outlook for Diamond Green Diesel, and we're getting closer to forming the joint venture with Tessengerlo, and we don't expect that has a lot of capital demands to it, now we can start to look at different things like a dividend program or stock buybacks.

<<Justin Jenkins, Analyst, Raymond James>>

Got about five minutes left. Any questions from the audience that we can ask the team? In the meantime, Randy, I guess the last question I like to ask folks is, what are investors missing? You've seen the stock go from 30 to the low 50s here in a pretty short period of time. What's the most important takeaway for investors when they're thinking about Darling?

<<Randall Stuewe, Chairman and Chief Executive Officer>>

I mean, and I'll take a little bit, and hopefully Bob can chime in given my legacy. We've built something no one else has in the world, the core ingredient platform. It can't be replicated. It'll never be replicated. Those are big words and pretty boastful of me to say that. But the earnings power of that business over 2024 and 2025 was truly tested as in one of the most difficult worlds I've ever lived through, of cycles here. If I went back and looked at strategy documents and beliefs, we never thought that Diamond Green Diesel, which is just an extension of our business, would cycle as hard as it did.

As Bob was describing capital allocation plans, we did \$3 billion, \$3.5 billion of acquisitions with basically cash and straight debt. Had you known it was going to cycle, you probably, A,

wouldn't have done one of the acquisitions, or B, you might have used a little equity when you're in the 60s and 70s to do it, right? We've tested the model. We took the gut punch as hard as anybody could take it. We proved the resilience of the model, how we can move things around in order to widen margins, work with our suppliers. We continue to grow our raw material streams around the world. We continue to value add. And so we kind of sit there and say, "Don't forget about the core business. It's so solid here.

The optionality created by Diamond Green Diesel, it's technology we've proven. Number two, it is ultimately the low-cost technology locations in the world and it has nothing but upside. When we looked at the valuation, the equity valuation, that's you guys' world, not mine. You were valuing the core ingredient business and giving us 0 for DGD. Now I think that model has changed. I think we've got a little different horizon ahead.

<<Bob Day, Executive Vice President and Chief Financial Officer>>

Yeah, I mean, I would emphasize, I think what sometimes is missed is the real value in the core business. The cash flow generation from DGD over, the 10 years where it was so successful, it really created the opportunity to build the world's only independent rendering and collagen business and infrastructure. Darling took on some major acquisitions in 2022 and 2023. It was very ambitious. And integrating those companies, that size is always a challenge. We're starting to really see the benefits commercially, more than anything else, of having all those components, having a global infrastructure that can maximize product quality to ultimate destinations, the arbitrage that's available there. I mean, there's still a lot of juice to be squeezed out of that lemon, and I think sometimes that's missed.

<<Randall Stuewe, Chairman and Chief Executive Officer>>

Yeah, we look at it, Justin, as Bob said. I mean, what else can you throw at us? A few tariffs, no RVO, maybe a war today. I don't know, you know? It's just. I don't know. Just bring it on. Yes, sir.

Q&A

<Q>: [Question Inaudible]

<A – Randall Stuewe>: Of conventional?

<Q>: [Question Inaudible]

<A – Bob Day>: So renewable diesel is indistinguishable from diesel. That's one of the things that makes it so valuable as compared to biodiesel, which is basically soybean oil that's blended into diesel, and it's an inferior product. There's no, the user of the finished product wouldn't know the difference.

<A – Randall Stuewe>: Yes, now that was the thing when we looked at the technology, 15 years ago. There's a seasonality, there's a hygroscopicity of biodiesel. This is a hydrocarbon. Yes, we

had to apply to get permission to go into the pipeline, but that's what built the business and it just set us apart from everybody because you could hit the pipelines out of the Gulf Coast and boom, there it is.

<<Justin Jenkins, Analyst, Raymond James>>

Randy, Bob. Thank you very much.

<<Randall Stuewe, Chairman and Chief Executive Officer>>

Thank you everybody.