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Darling Ingredients, Inc. (DAR)

BMO Global Farm to Market Conference

CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

MANAGEMENT DISCUSSION SECTION

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

All right. Darling has positioned itself as a global leader across rendering, biofuels and Feed Ingredients as strategic acquisitions, capacity expansions, and its Diamond Green Diesel joint venture have transformed its business model over time. CEO Randy Stuewe has led Darling through that business transformation, and the business could be poised to demonstrate its improved earnings potential moving forward, given evolving biofuels policy, ramping sustainable aviation fuel production and expansion into higher margin ingredient categories. We're really appreciative, Randy, that you're here with us today. So thank you very much.

QUESTION AND ANSWER SECTION

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Maybe I'll start on what I feel like is what we've – I've been spending the most time talking about, and that's the regulatory environment. We have guidance on 45Z, a preliminary RVO potentially coming here very soon. We've also seen kind of some pushback within Congress or portions of Congress to reinstate the BTC, another one to eliminate the IRA tax credits, which now we have some visibility against, so maybe that's not as much of a risk. But how would you characterize the regulatory environment broadly under the current administration and kind of its view on decarbonization policies?

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

A

No, I think a lot of broad topics there. I think it's – we're very much in a transition moment at this time. For those that were following the House Ways and Means Committee just passed and has now sent the big, beautiful bill on over.

It contains a lot of great things in there for Darling and for many in the room. I think what I'd like to say is it's transitioning from climate change to support for the agriculture community. And ultimately, the things that are contained in it from the 45Z, which is you've got to go back to the history there. We've had a blender's tax credit since 2007, sometimes in place, sometimes retroactive. Always a lot of unknown, but never really pulled. But at the end of the day, the PTC was enacted for 2025, 2026 and 2027. As the House Ways and Means Resolution or Committee report suggests, it's going to be extended out to 2031, which is good.

And ultimately, we've got what we want out there is agriculture. I think the piece you left out of there was if you think of the industry Darling has led the world in renewable fuel since 2013. We've had some wonderful, incredible years. And then because of mandates that were too low for 2024, we finally hit the blend wall, as you would call it. The renewable volume obligation, which we anticipate any day now will return that. And so the combination of 45Z as a producer's tax credit that Made in America for America, that actually generated under Chuck Grassley about 10 years ago, but was shut down by a series of lobbyists at that time, is now back in place.

Renewable volume obligation is now being proposed somewhere. We're hearing numbers 5.25 billion. That's very constructive to both Darling and constructive to my predecessors up here at ADM. And it is a very good thing for American agriculture. If you think of the world that we're in today, and we live through the tariff moments, and then Trump tariff Mondays that were relaxed. At the end of the day, we've got what he was trying to target. And that was lower energy prices, natural gas.

We've got ultimately pumped – fuel pump prices. And now the only thing we don't have is we still got $10 soybeans and $4 corn. So we've not rewarded the farmer yet. And so, Andrew, it's coming. And are there unintended consequences? And will there be some horse trading, no pun intended, in that that ultimately make this thing really work.

But I think it is really excited. And this will return us to we had six record years in a row, a seventh year that guy had a little challenging, and I'm expecting to return to that track again.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

Can you – you mentioned the 5.25 on the RVO. Can you frame what that means, relative to production capacity, relative to feedstocks? Like, how do you think about that number in the context of what the industry can produce, and the implications for you guys?

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

Yeah, the number one I always have to wear two hats. And I wear the Darling hat, where for those in the room that know us, we process about 15% to 18% of the world's slaughtered animal byproducts into fats and proteins. And in a rising protein and fat market, we do really, really well.

And one out of every six animals in the world goes through one of our factories. When I wear my hydrocarbon hat, we ultimately want to have a nice margin in there, which we had from 2013 to 2018 and 2018 to 2023 and then 2024 became a bit of a challenge here.

As we look at the RVO today, back in 2022, we told the EPA through various trade organizations, we said, hey, the margins in this business have been very good. There's capacity under construction. It's coming from capacity that may not understand why they're getting into the business, namely big oil.

And – but once they go, they're going to go. And so they built about 5.2 billion gallons of capacity. So there's nothing magic with the 5.2 billion gallons that was preached, delivered, and now I hope it will be recognized. So that's the first thing. So people say, where did that come from? The second piece of it is, is that good or bad?

Well, the interesting thing with it is we've added a lot of crushing capacity. The A, B, Cs and the Ds did, and the co-ops did. More processed at home or what's your alternative? You're reliant on China to buy your product, the beans, corn, the canola. So we've added a lot of capacity. So there's plenty of oil in this country or veg oil to fulfill most of it.

Now, the magnitude of the 5.25 billion gallons is that's 1.9 billion gallons bigger than the 2025 number today. And if it takes 7.5 pounds or 8 pounds, I'll do fuzzy math let's call it 14 billion pounds of new supply to fulfill that, there's production capacity to convert it. But it's a very significant number.

It's very constructive to veg oil prices. It's constructive to animal fat and waste cooking oil prices. So it's a big number that's out there. It's what agriculture needs. It will allow some additional expansion in the crushing side. It'll allow our animal fats to receive the value they deserve. And we'll just see how it works.

The challenge that's out there is, as you look at the world today, last year, why did margins go bad? Margins in the RD business went bad because of cheap biofuel being diverted into this country and cheap feedstocks that were being coming out of the Asian countries, namely Chinese UCO. The way that the legislation today now prohibits some of those feedstocks from coming in, that's even more friendly. But over time, you're going to have to allow additional feedstock into this country in order to meet that need. But people will figure that out. That's a down the road deal.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

We've seen a pretty significant increase in RIN values. And in some ways, it coincided with some of the policy actions or a discussion. Do you think that that's been the real driver? Is it simply the boho spread? Is it more kind of the under production maybe that we've seen relative to the current mandate? With what we've seen so far how do you think about what's been the driver of RINs?

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

A

Yeah. So ultimately, what the renewables or the biomass-based diesel business experienced last year was the mandate blend wall. Ultimately, ethanol experienced it many years ago. But when you make one extra gallon, it's worth zero. And so ultimately, as big oil finally got to the party here, then ultimately they overproduced with the imports coming in, still generating RINs. And ultimately, at the end of the day, we drove the margin to zero.

That's why it has to go up now. So what's it going to take? I think the more relative question – relevant question is, what's it take to restart the industry? So if you look at Jan, Feb, March, possibly April here in a few more days, RIN production is not large enough to meet the need this year. Yes, we're carrying over a surplus. And yes, it'll get tighter towards the end of the year. And yes, you can roll your gallons forwards, et cetera. There's a lot of way to play the roulette game here, in a sense. But at the end of the day, in order to create a RIN, you got to make a physical gallon.

And in order for a physical gallon to be created, it's got to be marginally profitable. However you want to define that. We would tell you today, given where feedstock costs are, given where RINs are, that the RIN has to come up at least another $0.60 a gallon to $0.80 a gallon in order to restart capacity to meet this year's requirement, not next year's. And so we've never been in a marketplace that's trying to trade the future like – and really, at the end of the day, the RINs market's very thin. The physicals can be, if you will, shifted out or diverted to another year. So, this is a moment, like I said, it's an inflection point in the business.

And I think as we're hearing, hopefully the RVO will be released before Memorial Day. You'll have the details of it. Certainly, it'll be out for public comment. And certainly there'll be people that are really happy and there'll be people that aren't. You've already seen the 45Z announcement. You've seen the extension there.

You've seen foreign feedstocks. Like I said, this thing is really, really setting up very nice. And then I always ask myself when I convince myself that it's setting up really, really nice, what could go wrong. And I think it's fair under Trump 1.0 and under Scott Pruitt and under Carl Icahn, you had all the small refinery exemptions. There are exemptions still out there that came out of the courts, now dating back to 2017.

They may take a little bit of the edge off of it, but not going forward. And so at the end of the day, it's not material. Last night at dinner with you, they said, well, what if it's not 5.2 billion gallons? Well, I said, and then I said well, what if it's 4.5 billion gallons? Let's take all $800 million of small refinery exemptions. That's still a 10 billion pound feedstock increase. I mean, the numbers are there. Now when the market accepts it and realizes it, we'll see.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

One of the – I go through the same exercise. So and it sounds as positive as it could be. I think about the risks. One of the things you didn't mention is imports. If the RINs go up that much, you mitigate kind of the impact of the tax credit. Do you think imports would come back in? And what's your concern about that maybe also taking the edge off?

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

A

Well, and you know my personality, I'm trying not to offend too many people in the same day. But it's a very naive approach in the world to believe that you can build a wall. If you think around Europe, they built a wall. And it's very hard to move product in and out.

In the US if we do, if this isn't done properly, you'll build a wall. And you can't be so naive to believe that those feedstocks that exist out in the world, we're the largest operator in Brazil and Europe, our Chinese operations. Those feedstocks will find other conversion capacity offshore, most likely Neste. They'll be discounted because they can't get here.

And then they've created a renewable fuel that will be brought in here. And thus they've taken away the demand that has been created by the new RVO. So we have to be careful on prohibiting feedstocks. If you wanted to say what's the ultimate win, the ultimate win would be to somehow either tariff imported renewable diesel or not let it generate a RIN. Then you've got that in the perfect environment, in a sense, I'm not sure we'll get there.

I think the Congress is pretty open to allowing feedstocks in here. Where Chinese UCO fits into that. And for those that still think Chinese UCO is the devil, I mean, remember, there's 12.6 million restaurants in China. There's 700,000 in the US. Yes, they produce UCO. And so it can't go to animal feed in China, so it's got to go somewhere. So ultimately it will find its way to the most efficient market in the world.

It was European biodiesel, but now as SAF and RD capacity come online, it's finding its way there.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Kind of just to round out the regulatory discussion. I wanted to get your perspective on LCFS and where that process stands now. How is that progressing? And do you have a sense on timeline, how that'll be implemented? What are your current thoughts?

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

A

Well, the – what I am told, number one, we were very disappointed that, it went back to basically CARB for administrative review, 22 pages. Who knows the real reason behind that? It's political. We understand that the CARB has wrapped it up and we understand that CARB will most likely deliver it here between May 18 or May 19. And people say, why is that a critical date?

Well, that allows then OAL under a statutory review, the Office of Administrative Law to relook at it in 30 days and hand it off to Governor Newsom. If they do that before July 1, it, by definition, has a January 1 implementation date of 2025. So we're hoping that happens. We're told we are. I think many of you in the room watched the news and the media out of California every day. And where Governor Newsom is, this is his program, but he's all over the political map today.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

SAF, that's obviously one of the growth engines for Darling through DGD. Production is online. It came online last year. Where is that in the ramp? How did it contribute to the first quarter? And maybe how should we think about the progression of that through the balance of the year?

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

Yeah. SAF and as we like to talk to people, when we went into the renewable diesel business, and plant came online in I think 2013. Ultimately the first mover advantage and the first machine in the world that could convert low-cost feedstocks into a hydrocarbon. We started looking at SAF. The market wasn't really defined, but we said, if big oil brings on this RD capacity, why not have the optionality to play in both markets? And then we said, well, what's that cost? And is that worth the risk?

And do we believe that SAF will develop? And the answer was yes to all of them. So plant came online early in November, starting up last year. It's at or near capacity today. The sales ledger is really developing at the margins that we'd expected. And so at the end of the day, we've got the physicals market, which is voluntary in the US. You've seen many of our announcements out there. There are few gallons here, a few gallons there. You're seeing in Europe, Europe's obligation doesn't really initiate till the end of the year.

So Europe has been a little slow. They're trying to figure out the rules, to bring it in and how it, and it's turned into a very complicated feedstock issue. Because if you think about it, and this is kind of the learning in the room, because when somebody says, I'm going to make SAF great. That's – those are easy words. When you're physically going to make it, it takes technology that can split the molecule and give you a freeze point that you need for the standard. But you're going to make about half RD and you're going to make half SAF.

Well, in January 20, what the world tell you under 45Z? They told you which feedstocks qualify. So even though we could bring in Chinese UCO, that's CORSIA certified, make SAF and ship it back to Europe and claim a duty drawback, at the end of the day, the other 50% of RD wouldn't get duty drawback or the PTC.

So it's a very complicated trade right now is what I would tell you. The team has figured it out. Port Arthur is now really just is a UCO animal fat plant that is doing quite well and meeting all of our expectations. The sales ledger, on one side of the ledger, you've got the voluntary, you've got the mandated. And really there's a min-maxes on there. There's lots of flexibility on these contracts. And it feels like we're building out to a full book for 2025 and 2026 sales are coming.

The other piece that's developing out there is really what we would call the book and claim market. And the book and claim market is, we kind of – we'd like to, just without giving names of who is there, the technology companies that are really focused on AI and are going to be huge energy consumers want to remain or try to be back to energy or carbon neutral. And they're willing to buy a credit. And so that is in the early development stages. If you asked me to handicap it, we may be making Jet A and selling book and claim credits as we go forward.

I mean, how, you're watching the airlines in the US all talk about lower summer travel and challenges. I mean, without that credit being able to be marketed, which is what some of the airlines are doing, it's really kind of without a mandate, at least in the US, it's physically and economically challenging.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

Do you – you guys have talked to or you have talked about a potential second SAF plant at some point, so I'd love to know your thinking about that. But I guess as I think longer term, if we don't have a mandate around SAF specifically, some of those challenges, do you foresee the margin premiums compressing or at least being some pushback or pressure on that? I guess I'm just curious over time how you think about sustaining that?

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

Well, number one, we continue to finish engineering on SAF II where there's multiple options. Clearly, the feedstock challenges have made how you engineer and where you put it, whether it's Port Arthur, whether it's in Norco, more challenging. And then the phase out of the 45Z, is it really going to step down? Even if we put a spade in the ground today, you're talking 2027 until number SAF II's up. Now, we're extremely bullish on SAF around the world and think that it's going to move forward. And the margin structure is such that I don't see it really changing because I don't see new capital going into it.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

Okay, that's pretty clear. Shifting gears a bit to the Feed segment, how do you, I mean, look, it's been a bit of a cycle here? How do you think about the earnings potential of that piece of the business over a multi-year period over the next couple of years? You've improved that business in a number of ways. You've made acquisitions, integrated those. So what's kind of the right framework to think about the earnings potential of that piece of the business?

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

Yeah. And I – it's always – it's interesting you guys always talk the Feed segment. I talk the whole business, because we kind of really just make fats and proteins across the spectrum. What – the application is the segment, Feed segment by far, because we pick up most in the edible product is by far the largest. The margin structure in that business is driven by how you buy the raw material and more importantly, what's the value of the fat, the waste fat that comes off of it. Clearly, the resurgence and the RVO is making, fats worth more.

Decarbonization drove it for the last couple of years. And then we kind of hit the lower end here. And now it feels like it's coming back. As we came out of Q1, we started to see fats move back into the 50s now, which we haven't seen for a lot of years. So you'd have to go back. I've kind of forward casted it for the segment for the year 950. I hope I'm low. I've been punished the last couple of years in a – this is a business that I say is fairly easy to forward look, as long as prices are stable, tonnage is stable. And that's what we're kind of looking at. And we think prices are actually going to move up. So I think we're going to be on the low-end there as we go forward.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

Maybe to that point, narrowing in on the quarter you just reported, the first quarter Feed numbers were a bit lighter than we would have. Our forward look was maybe not as good as it should have been. What were the dynamics kind of that drove that? Was there anything unusual in there that we should keep in mind?

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

Yeah, we've always operated in one of our core values is transparency. Q4 is always our biggest quarter because that's when we clean up everything around the world in a sense. And we took in some insurance settlements that we probably should have kind of revealed we had two fires over the years. And then eucalyptus forest in Brazil and a flood in Brazil. And that was part of it. And then part of it was there are massive, significant, I think – they won't let me use massive inventory holdbacks for both DGD and for the rising prices. And so when you normalize it, it made sense. January is always our most difficult month.

February, we were hit by tornadoes, floods and freezing everywhere. And then March just really came roaring back to where we thought it would be. So December might have been optically a little better to you. And my learning from it is I'm going to be more transparent on that in the future. And but I can tell you, March and April are where we need to be. And it should only improve.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

Okay. So starting in 2Q and beyond, that's kind of the right way to think about.

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

Yeah.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

Okay. Okay. That makes sense. You've you talked about a $0.10 or $0.01 move in fat prices. Rule of thumb is X to the profitability of the Feed segment. Protein prices have been pretty depressed. Is there a rule of thumb on that side of the business?

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

There is, but not really, it's not material.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

Okay.

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

Typically, the biggest challenge on the protein side. So each $0.01 globally or $20 or short tons, 12 million, maybe 15 million, depending on where you're at. And the protein side, the value-added proteins, if you think that that would be pet foods and then the aquaculture grade material got heavily tariffed into the destinations China.

So ultimately, if those tariffs roll back, then those protein should come back. Mix PC animal byproduct meal or meat and bone meal now has very limited homes. But most of it is in the poultry regions of the Asia Pacific area. And that's just got kind of confused here. So typically, clearly we're crushing a lot more beans. Soybean meals got a 300 in it, we'd like to have a 300 in it and again on our base product. And I think it'll come back there.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

Okay, that makes sense. You guys threw me a curveball this week. I had all my questions nicely prepared. And then you announced the JV in the Food segment. Can you talk about the rationale of that, of forming that JV and kind of what you're trying to achieve over the longer term with that?

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

Yeah. And try not to be a bit cliché that – we're not. Clearly, we've built something special there and just find it for the audience. I mean when an animal goes to slaughter, part of its can go to food grade materials. Obviously, the cut out of the meat does. But there's other byproducts that can. And those are bones and skins that we make collagen and gelatin out of edible animal fats. We've got a very significant edible business in Europe and then ultimately a casings business and a heparin business. And that rolls into the Food segment, if you can't feed it to a human. But it hasn't been essentially condemned. That's the Feed segment.

The formation of the stool or the platform was really by segmentation of animal back in 2015. And the belief was, well, we could dump it all and just call it global rendering and just really confuse the hell out of everybody. Or we could say Food, Feed, Fuel and Food because these are specialty ingredients should get a higher multiple and Feed were probably like big ag out there. We should get their multiple and our small little Fuel is an annuity business before Diamond Green Diesel. And we knew it would get a lower multiple. But the game was to try to blend it to around it 11 or 12.

And the only thing I got rewarded with was a renewable fuel multiple at 6.5. And so, experiment failed. And so that we've taken the collagen business. We're the one of the largest, if not the largest in the world. We're 150,000 tons before the joint venture. And we have built a product line that probably many of you touched you this morning in what's called hydrolyzed collagen peptides. And that's us. We're not retail.

We're business-to-business. And we've taken a business that used to make $90 million and it makes $250 million to $300 million now off of product line expansion. We're in 2.0 of that business now, which is concentrated or isolated collagen peptides that have a specific health, wellness and nutrition application. We've launched one now for GLP-1. Where it fits in the profile of weight management and appetite suppression, it's really just in its early stages. We've got about a dozen more of them out there that are in the launch form right now over the next three to five years.

The joint venture came out of a relationship with not only a competitor, but a friend of 10-plus years. And he called me and said, hey, I have five children. He says, my, this business does not fit the five – the top five want to do. And would you think of letting us form a new company? PB Leiner is a absolutely stellar player. They have brand recognition.

They have products we don't have. They have plants and geographies we don't have. They have access to raw materials that that is superior in some cases to us. And so we started down the path of saying what would a new company look like? Because our challenge is, as we go forward with the next tide of product line, we were either going to have to acquire or construct capacity. And the deal we were capable of negotiating here made this a more favorable decision.

Typically you don't announce an MOU, unfortunately, under Belgian public company law that triggers union notifications and stock exchange. So you have to. We'll head to definitive agreement as quickly as we can here. And then we'll hand it off to the attorneys in the anti-trust world of Europe, China, South America and the US to get approval. The concept here is as we look at the Food segment, we've said this basically represents about 77% of our revenue in there.

But in the high-80s of our earnings, there's some smaller businesses there that that can be moved back over into the I'm going to call it the global rendering segment, you call it the Feed segment, and then we'll have the global rendering. We'll have – we like the word ag energy because Trump doesn't like the word renewables. So we'll stay away from renewables. And then we'll have Nextida as a free-standing company that you will have complete transparency to of its performance, its growth and its dreams, at which time it either will bring to me and us the multiple and valuation that we deserve or we'll take it public.

And it's just that simple. And yeah, that's a longer timeframe than most people in the room always want to hear, but that's the reality of how it works.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

The JV is Nextida. The product is also Nextida. Can you talk about the product and your enthusiasm for the product? And I think you officially launched six months ago roughly. What's the receptivity been? Kind of how do we think about the glide path for that?

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

A

Yeah, it's essentially we're – as you go into these products, they operate in the supplement world, which is a bit of the wild, wild west of regulation or lack of regulation. But when your customers are large health and wellness companies and you know who I'm talking about here, they're requiring a more sophisticated level of clinical trials. We completed many of them, smaller groups on our GLP-1 alternative, showed a 42% drop in glucose spikes.

That's right there with the big pharma numbers. Maybe it doesn't have the appetite suppression side, but maybe it's the alternative when you come off of the pharma. And it's about $68 a jar for a month, so very affordable. So we're in secondary and very significant clinicals on that, which should accelerate the growth. We've got brain health one now, dementia treatment potentially.

And in women's health hair, nail, skin there's many of them. If and I said, I know that it sounds like a lot. When I go back, 2015 is when we backstopped a little company in Chicago called Vital Proteins. And the Founder had, he was an avid runner. As we all get older, we know that lubricity in our joints lessens. He had done his research and said, can I have collagen? And so we made him the first shipment out of Amparo, Brazil. And needless to say, that's that product line globally has grown through about 30% of our product line. What's unique about it in comparative is it took 10 years to get there.

So the Nextida platform is being launched, it has a library of products, it has great assets in the world. And we see just really a strong trajectory of growth, which is more common to being able as a health and wellness company to talk about a three- to five-year outlook without injecting the word commodity in there.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Got it. Okay. And if I think about what the opportunity looks like for that business overall, can you help us understand? And I understand it takes some time to develop. But I think you made the comment that you think that business can be more valuable than the global rendering business. I think is what you said. Maybe I misunderstood that. But how do you think about the...

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

A

Was I drinking last night?

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Cannot confirm or deny?

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

A

Okay.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

How do you frame the opportunity?

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

A

No, that you look at the margins, the gross margins, they're 25% to 30%. Last quarter, I think 29%, you take a $1.5 billion revenue and you got 400, 450 before the Nextida product line, a potential EBITDA. And that's really bringing the PV plants and the product mixes and moving around and synergies over time after close.

And then the question is when you start to say when you go out and start finding health and wellness ingredient comparisons out there, you're 12 times to 16 times. And so we've got a market cap today on a little under $6 billion before I got up here. Hopefully it doesn't go down after I get up here. But and ultimately, that's what that company would be worth today.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

Got it. Okay. Thinking about this year, I believe the first quarter was weaker than you might have expected. It was weaker than we expected. But you reiterated the guidance. Maybe frame how it compared to your expectations. And then kind of what were the moving pieces that hold the guidance? What did you include versus what you weren't including? How do I just kind of think about that the expectations...?

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

A

Yeah, the April – the March run rate divided by 5 times 40 and that gave us basically a 950 run rate without fat prices moving up anymore. The Diamond Green Diesel, we're looking at that and just saying something's got to give. And what we mean by that is margins have to improve or RINs are really going to jump here. And that'll really be a back half of the year. And it doesn't take much. The first five years we ran a $1.26 a gallon, the next five years almost $2.20 a gallon. And then it kind of fell off last year. The investment case was around $0.80 a gallon. We still believe that's our competitive advantage before SAF and to restart the biodiesel industry and some of these off-players, it's going to take a significant margin improvement and we're there.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Q

We started the discussion, my intro, we talked about the transformation of the business over a number of years. If I think about the next kind of three to five years and how you think about growing the business, we talked about SAF, we talked about Nextida. What are the other kind of ways in which you think about evolving the business, growing the business, over the next handful of years?

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

Yeah, when I still look at the world and I still fundamentally, as we've always said with population, even though somewhat flat or declining in some places, you've still got population growth. You've got wealth creation and it's still people eating better and wanting protein. At the end of the day, the preference is still animal-based protein. And so we continue to see continued growth in South America.

I've got four plants down there today that are in need of additional capacity as we go forward. We continue to – I fundamentally believe Brazil and one day Argentina will help really feed the – feed China. I don't we haven't waved off of that one. Clearly, the Nextida is really exciting for us and the SAF project. So organic growth in the rendering business, new products in the collagen business and aviation fuel as we go forward.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

Does M&A become more a part of that as a driver? Certainly not with SAF and Nextida, but I think maybe for the core business or is that something that you would do more organically?

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

Well, M&A will be opportunistic as it comes. The challenge in this business today has been over the last three to five years, the cost to build a plant has tripled. And that changes the M&A what you kind of acquire a brownfield for and ultimately retrofit.

So yeah, there's players out there that clearly – there are three of them for sale in Brazil today. We're – I've still declared an M&A holiday. I want to get the balance sheet more in a better shape. Ultimately in Nextida, once we close, do we move some debt over there, those are all things. So in no hurry to do anything other than to deliver on what's available to us today.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

And so when I think about delivering on what's available to you today, and I think we closed with this last year as well, but I want to ask it again when you look at Darling's asset base as it sits today, and I get kind of the ups and downs of the cycles and some of those disruptions, what do you think this business should earn from an EBITDA perspective? It's certainly not guidance, but just how do you think about what kind of the right level of earnings for this asset base is?

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

I mean, pre any future growth in Nextida today. We look at – when we put the Diamond Green Diesel machine on top of this, it was really thought of as a hedge. If we had low fat prices, we'd have higher earnings in DGD. If we get the RVO, which we fundamentally do believe we'll get a significant increase that goes back into play here.

So easily, as we've said, the core business can – is a 100 million a month business, 1.2 billion. And DGD, the investment case was right at $0.80 a gallon on 1.3 billion gallons. So you're somewhere between a 1.8 billion and 2 billion in the current form that it's at today.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.
Q

Before Nextida?

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

Before Nextida.

Andrew Strelzik
Analyst, BMO Capital Markets Corp.

Got it. We're right on time, so we'll end it there. Thank you very much. Really appreciate it.

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

Thank you.